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UNIVERSITY OF MONTANA

REPORT ON AUDIT

Fiscal Year Ended June 30, 1970

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UNIVERSITY OF MONTANA

REPORT ON AUDIT

Fiscal Year Ended June 30, 1970

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APPOINTIVE AND ADMINISTRATIVE OFFICIALS

STATE BOARD OF EDUCATION
ex officio
REGENTS OF THE MONTANA UNIVERSITY SYSTEM

Hon. Forrest H. Anderson, Governor, President of the Board

Hon. Robert L. Woodahl, Attorney General

Hon. Dolores Colburg, Superintendent of Public Instruction

A. A. Arras, Jr.	Cut Bank	1971
M. E. Richard	Miles City	1972
Mrs. Marjorie W. King	Winnett	1973
Boynton C. Paige	Philipsburg	1974
John D. French	Ronan	1975
F. H. Mielke	Sidney	1976
T. T. Heberly	Havre	1977
Mrs. Harriett Meloy	Helena	1978

Edward W. Nelson, Executive Secretary

UNIVERSITY OF MONTANA

LOCAL EXECUTIVE BOARD

Theodore Jacobs	Missoula	1971
Mrs. Robert Haugen	Missoula	1972
Alex M. Stepanzoff	Missoula	1973

ADMINISTRATION

Dr. Robert T. Pantzer, President

Dr. Richard G. Landini, Academic Vice President

Dr. Norman E. Taylor, Vice President for Research

George L. Mitchell, Administrative Vice President

Calvin L. Murphy, Business Manager

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MORRIS L. BRUSETT, C.P.A.
LEGISLATIVE AUDITOR

G. DEAN REED, C.P.A.
DEPUTY LEGISLATIVE AUDITOR

STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59601

The Legislative Audit Committee
of the Montana State Legislature:

We have made the initial audit by the Office of the Legislative Auditor of various activities of the three largest units of the Montana University System - the University of Montana at Missoula, Montana State University at Bozeman, and Eastern Montana College at Billings. This report contains our comments and recommendations as they relate primarily to the University of Montana, at Missoula. Audit reports on each of the other two units are being issued separately.

The primary objective of audits conducted by the Legislative Auditor's Office is to make a comprehensive analysis and evaluation of the audited agency's activities, primarily as they affect state finances, and report to the Legislative Assembly as to the efficiency and effectiveness of the agency's operation. The unusually large size of the University System compared to other state agencies has precluded our making comprehensive audits at each university unit. Instead, we have broadened our coverage of the system in many instances by emphasizing more work in particular areas at each unit than that in the same areas at the other two units. Accordingly, each report may contain comments and recommendations not in the other reports even though the comments and recommendations may be pertinent at the other two units. The same might also be true for the three university units not included in our current audit - Western Montana College at Dillon, Northern

Montana College at Havre, and the Montana College of Mineral Science and Technology at Butte. In order for each university unit to have the opportunity to evaluate the comments and recommendations in each of the three audit reports as they relate to their unit, we are forwarding sufficient copies of the reports to the University System's executive secretary for distribution to each university unit.

Conversely, for several of the more significant items that have university-wide importance, the identical comments may appear in each of the three audit reports with the only changes being the applicable university unit's name or facts and statistics inserted where applicable to the individual unit.

We have purposely directed our recommendations to the university in several instances in this report where we believe a change in a university-wide policy, procedure form, etc., may be needed. This was done so the university's management can take positive action by presenting such recommendations, together with their comments, to the Office of the Executive Secretary of the University System and, where applicable, eventually to the Board of Regents, for university-wide consideration.

Throughout this report, we refer to the University of Montana as "the university," the collective units of the Montana University System as the "University System," and the State Board of Education, ex officio Board of Regents of the Montana University System as "the Board of Regents" or "the board."

COMMENTS

GENERAL

The University of Montana at Missoula was chartered February 17, 1893, by the Third Legislative Assembly. Later legislation changed the name to State University of Montana then to Montana State University. On July 1, 1965 it again became the University of Montana. The university has grown from an initial group of 50 students and seven faculty members to an institution of over 8,000 students and over 400 full-time instructional staff members, and remains one of the largest of the six institutions of the Montana University System.

Subject to the Constitution and the statutes of Montana, the university is under the general control and supervision of the eleven-member State Board of Education, ex officio Board of Regents of the Montana University System. A local three-member executive board is appointed by the governor for each institution in the system. Despite its name, this group is merely advisory and has only duties assigned to it by the Board of Regents, and these duties must be other than financial. By statute the combined state system of higher education in Montana is called "The Montana University System." An executive office and executive secretary are located in Helena. The executive secretary is directly responsible to the Board of Regents, assisting in communication and coordination of policy expressed by the board for implementation by the presidents of the various university units.

Charged with the responsibility of providing undergraduate education in the arts and sciences and professional education, the University of Montana at Missoula now offers bachelor degrees with majors in over 50 fields of study. In addition, the university's graduate school has grown considerably since 1899 when the first graduate degrees were conferred in three fields

of study. The graduate school now offers over 80 graduate degrees in 41 fields of study.

The university is financed primarily by state appropriated moneys, student fees, and local auxiliary enterprises such as the residence halls, food service, and student union. Moneys are also received from various other sources, i.e., student organizations, scholarships, gifts, and grants. During the year ended June 30, 1970, the university received $14,190,930 of state appropriated moneys. An additional amount of approximately $15,000,000 was received and deposited from the various agency and auxiliary accounts.

ACCOUNTING SYSTEM AND FINANCIAL STATEMENTS

The university business office maintains the accounting records for the university, the university of Montana Foundation, and numerous auxiliary enterprises and other affiliated organizations. The university utilizes data processing equipment in the preparation of the financial records and all books of original entry and the general ledger are in the form of a data processing listing. Accounts for approximately 180 sub-funds are included in the general ledger. Each sub-fund is an accounting entity consisting of a self-balancing group of accounts. Such sub-funds are grouped into the following major classifications of funds:

1. Current Funds - Unrestricted
2. Current Funds - Restricted
3. Loan Funds
4. Endowment, Annuity & Other Non-Expendable Funds
5. Plant Funds - Unexpended
6. Retirement of Indebtedness
7. Plant Funds - Net Investment
8. Agency Accounts
9. Institutional Control Accounts

The above classifications of funds are basically the same as those recommended in the American Council on Education's book "College and University Business Administration."

In addition to the general ledger accounts, other subsidiary records are maintained. These consist of over 1,000 "departmental ledgers" or "budget ledgers." These are maintained for each department on campus receiving a budgeted amount of moneys or other departments where additional subsidiary

information is deemed necessary. While they reflect accounting information and are used as accounting records, they are also the primary point of budget control.

The accounting system, in our opinion, is too cumbersome to adequately serve the needs of the university's management. The system presently utilized by the university has been in effect for many years with no substantial modification except in the early 1960's. The system has only been modified in piece-meal fashion as needs required during the years, and as a result the present system is a hybrid system intended to accomplish many things from object class accounting to budgetary control. Recommendations for improving the present accounting system are presented below.

Accounting System

As pointed out above, in its general ledger, the university maintains accounting data for approximately 180 sub-funds in nine separate groups of funds. Each of these sub-funds consists of a self-balancing group of accounts containing asset, liability, revenue, expenditure, and equity accounts. The account structure utilized by the university can accommodate up to ten general ledger accounts within each sub-fund. At June 30, 1970, there were 429 control accounts in the general ledger. This number can be substantially reduced without loss of control and the reduction should result in a much more efficient accounting system.

The existing structure of the sub-funds is such that two entries are required in each fund when a transaction affects two sub-funds within the major fund. In a transaction such as the transfer of cash from one sub-fund to another, two entries are required involving four accounts. In addition, the university has established "institutional cash control funds." These "funds" are maintained for each bank account, and essentially show

cash as it exists in the bank account. (As explained in more detail later in this report, all cash held by the university is "pooled" in four bank accounts for investment purposes.) This system results in another set of entries being made, so that a simple transfer of money from one sub-fund to another requires a minimum of three entries.

Better procedures for such accounting are recommended in the American Council on Education's book "College and University Business Administration." This book suggests an account structure which requires much fewer accounts because asset and liability accounts are "pooled" for each major group of funds. This is the basic system being utilized by Eastern Montana College. This means that only one account (an equity account) is needed for each sub-fund within each major fund. All other detailed information can be in subsidiary form. The result of the above system, in terms of entries required, is that only one double entry is required within each major fund when a transaction affects two sub-funds within that major fund, whereas as previously described, two entries are required with the university's present system. The "funds" presently used by the university to account for specific bank accounts would not be necessary, thus eliminating another double entry.

Reduction of the number of entries required to record the university's financial transactions would decrease the possibility of making errors and facilitate end of the month and year end reconciliations. We believe the accounting system presently used by the university could be simplified by adoption of the above described account structure and accounting procedures without impairing control. Business office personnel are presently studying the above described system and are considering a change in the account structure.

Consideration should also be given to establishing an accounting system which is uniform among all the units of the university system. At present, this is not the case, since each of the units has developed accounting systems to accommodate their individual needs and as a result different techniques, concepts, and standards have evolved.

RECOMMENDATION

We recommend that the university seek the advice of the state controller and work, on a cooperative basis, with the other units of the university system to establish a more simplified and uniform accounting system.

Accounts Receivable

The "Assets and Fund Balances" statement of the annual financial report for the University of Montana Foundation, shows $1,588,695 as accounts receivable. This amount represents the total amount of moneys available but not yet received by the foundation from the National Science Foundation and the Public Health Service research and training grants. This money is available to the foundation through letters of credit from these Federal agencies, and is only due to the university foundation when actually expended. In short, the letter of credit is only a contingent asset and as such should not be disclosed as an asset in the balance sheet of the university foundation. Of the $1,588,695, the only amount actually receivable at June 30, 1970, was $336,231, which university personnel have computed as the excess of expenditures over the amount of money drawn against the letter of credit as of that date. The effect of including the total balance of the letter of credit as a receivable is to overstate foundation assets by $1,252,464, with a corresponding overstatement of the fund equity balance. The proper method of disclosure for such an item is to footnote the financial

statements to show the total balance of the letters of credit as of the balance sheet date.

RECOMMENDATION

We recommend that the university adjust its accounts receivable and fund balances to reflect only those amounts due under the letter of credit process.

Unrecorded Assets

The university maintains accounting records for both the university foundation and the bookstore. A comparison of the university's records to the foundation's and bookstore's financial statements disclosed that the assets as shown by the university at June 30, 1970, did not include $2,505,016.

This amount represented non-cash assets of the foundation and bookstore in the amounts of $2,170,063 and $334,953, respectively. For instance, the items omitted from the university's general ledger which are shown in the foundation's balance sheet are as follows:

Faculty Travel Advances	$ 10,185
Current Fund Investments - General	9,849
Restricted Current Fund Investments	83,873
Research & Training Grants Receivable	336,231
Buildings and Land	226,873
Endowment Fund Investments	1,478,904
Notes Receivable - 6% Mortgage Contract	9,928
Notes Receivable - 7% Mortgage Contract	14,220
Total Assets Omitted	$2,170,063

This discrepancy results from the fact that basically the university recorded only the cash receipts and disbursements of the foundation and bookstore on the university records.

No recognition is given of the fact that many disbursements represent outlays for non-cash assets such as receivables, investments, fixed assets, etc. The information in the accounting records of the university for the foundation and the bookstore should agree with information shown in the financial statements of each of these entities, especially since the university is charged with and is performing the complete accounting for both entities.

RECOMMENDATION

We recommend that the university record and recognize all foundation and bookstore assets.

Basis of Accounting

The university essentially maintains its records on the cash basis of accounting. Only at year end are various accruals made in an attempt to convert the records to an accrual basis for financial statement purposes. The financial statements for the fiscal year 1969-70 are presented partially on the accrual basis. For example, the balance sheet for the current funds is presented on the accrual basis, but instead of presenting a statement of operations on the accrual basis, only a statement of cash receipts and disbursements for the current funds is presented. In the summary preceding the financial report for the fiscal year ended June 30, 1969, it is noted that "Auxiliary Enterprises" are reported on a modified accrual basis; all other accounts are reported on a cash basis.

The state controller is currently developing the procedures necessary to place all state agencies on the modified accrual basis of accounting, where appropriate, and this change will encompass the university.

RECOMMENDATION

We recommend that the university work with the state controller in implementing the appropriate basis of accounting for the various funds under the university's control.

Periodic Reconciliations

During the 1969-70 fiscal year, cash in university bank accounts as reported by the banks was not properly reconciled to the cash as recorded in the university records until year end. This necessitated substantial time being required at year end to determine errors made throughout the year. Such reconciliations delayed the preparation of the final trial balance and eventually the financial reports, which were still not complete in early December 1970. We noted that errors in substantial numbers and amounts were corrected at year end. If such reconciliations were made more frequently by the university instead of waiting until year end, there would be substantially less delay in preparing financial statements, and the day-to-day accounting data would be more accurate. In addition, timely reconciliations would reduce the chance of errors or possible shortages going undetected for long periods of time.

We were informed by business office personnel that they were studying the reconciliation processes in order to determine what changes should be made to correct existing deficiencies.

RECOMMENDATION

We recommend that the university establish a policy of performing complete monthly reconciliations in order to detect and rectify errors on a timely basis.

Budgeting for Auxiliary Enterprises

Auxiliary enterprises are services provided for a fee to students, faculty, and other university departments. The services are generally rendered at cost and are intended to be self-supporting, that is, showing neither profit nor loss. In the case of the university, however, the category of auxiliary enterprises includes more than just operations rendering services to others. The university also includes, for accounting convenience, some funds which are merely accounting entities such as the student union fee fund. The auxiliary enterprises at the university during 1969-70, as well as their respective income, expense, and profit or loss, are shown in Exhibit A.

The auxiliary enterprise classification of accounts at the university is of three types: (1) those for auxiliaries established through bond issues such as food service and residence halls; (2) those for auxiliaries set up through the use of state moneys such as the prescription pharmacy; and (3) those representing merely accounts or funds, as discussed above. Since each of these auxiliary enterprises differs to a certain extent in origin and operation, the revenues, expenses and nature of operation are all different. There is at least one common aspect, however, and that is the manner in which the university treats auxiliary enterprises from a budget standpoint.

In the past, the income or cost associated with the operation of auxiliary enterprises was not reflected in the budget presented to the legislature. This was apparently done on the basis that auxiliary enterprise operations are supposed to be self-supporting to the extent that income was intended to cover expenditures and, as a result, no state appropriated money was necessary.

Auxiliary enterprises handled in the present manner can staff, expand and otherwise operate without being subjected to the scrutiny and accountability built into the budget and appropriation process. An example of this is the university motor pool which was recently converted into an auxiliary enterprise operation. University officials said that one of the primary reasons why the motor pool was converted to an auxiliary enterprise operation was to remove it from the constraint of appropriation reversion, thereby enabling them to accumulate a reserve to replace and purchase new automobiles. Under the former system, the motor pool was operated out of budgeted moneys. Under those circumstances, any excess of income over expenses would have been reverted at year end.

In a later section of our report we recommend that the state controller evaluate the revenues received by the university and determine the proper disposition of such revenues. Since this action will encompass the revenues derived from auxiliary enterprises, we have no comments in that regard at this point. We believe, however, that the university should consult with the state controller to determine those operations which should be accounted for as auxiliary enterprises, and the manner in which they should be accounted for and budgeted.

RECOMMENDATION

We recommend that the university confer with the state controller to identify those operations which are properly auxiliary enterprises and the appropriate methods of accounting and budgeting for these operations.

CASH CONTROLS AND PROCEDURES

The concepts of "state" moneys and "local" moneys are discussed in greater detail in the following paragraphs. Briefly, "state" moneys, as

termed by the university, are those amounts in the state treasury which are appropriated by the state legislature, while "local" moneys are generated by activities related to the university which are deposited in local bank accounts to the credit of the university. The receipt of cash by the university centers mostly around the "local" moneys since state moneys received by the university are usually only spending authority and as such do not require receipting procedures by the university. Some "state" moneys which are appropriated are collected at the local level and treated as "local" moneys by the university, until remittance to the state treasurer. Examples of these are student fees and some federal moneys. This practice is discussed later in this report.

The receipt of cash at the university is ostensibly centralized in the university business office, under the university treasurer. All cash receipted by the university treasurer is deposited daily in a local bank account. As a matter of practice, the university alternates its deposits monthly among several local banks.

Cash receipts from all sources relating to all university accounts are treated the same and commingled in the university's bank accounts. This is done so that all cash in excess of current demands can be invested. As of June 30, 1970, the university's "local" cash was represented as follows:

Cash on Hand	$ 35,082
Cash Items	8,055
Cash in Banks	310,807
Invested Cash	1,567,107
Total Cash	$1,921,051

During the 1969-70 fiscal year, the university received revenue from many sources, including state appropriations, grants from others, and self-generated income. The major categories of revenue are shown in the following table with a more detailed presentation depicted in the Exhibit B at the end of this report:

UNIVERSITY OF MONTANA
MAJOR SOURCES OF REVENUE
Fiscal Year 1969-70
(In Thousands)

Source	Amount	Percent
State Appropriations (B-1)	$14,191	49%
Auxiliary Enterprises (B-2)	4,772	16%
Federal Agencies (B-3)	4,522	16%
Student Fees (Excludes appropriations) (B-4)	1,275	4%
Private Donations (B-5)	1,359	5%
Associated Student Store (B-6)	991	3%
Investment Income (B-7)	476	2%
Repayment of Student Loans (B-8)	164	.6%
Other Revenues (B-9)	77	.4%
Revenues Held in Trust: (B-7)		
Trust Funds	464	1%
Student Agency Accounts	914	3%
Total	$29,205	100%

There is one notable feature which stands out clearly when university revenues are analyzed. That feature is the absence of direct legislative and central state fiscal control over a large portion of the university expenditures and operations. This aspect is developed and commented upon in the succeeding paragraphs.

Deposit of Moneys in the State Treasury

As shown in the preceding table, approximately one-half of the revenues received by the university during 1969-70 came from specific state appropriations. Because it was appropriated, all of the money represented by these revenues was processed through the state treasury system. In addition to appropriated moneys, certain other moneys also originate or pass through the state treasury. For the most part, these consist of some federal moneys, moneys for debt retirement, and an insignificant amount of interest income from trust and legacy investments. In any event, 52 percent of the money available to the university was processed through the state treasury accounts, as depicted in the following table:

UNIVERSITY OF MONTANA
DISPOSITION OF REVENUES RECEIVED
Fiscal Year 1969-70
(In Thousands)

	Amount	Percent
Revenues Deposited in State Treasury:		
State Appropriations	$14,191	48.6
Other Revenues	1,050	3.6
Total Deposited in State Treasury	15,241	52.2
Revenues Retained by University	13,964	47.8
Total Revenues	$29,205	100.0

As a result, the receipt and expenditures of this money was controlled through the regular state claim process and reflected on the state accounting records maintained by the State Department of Administration. This was not the case with the remaining 48 percent, however, and as a result, about $14 million was received and expended by the university without deposit in the state treasury or disclosure in the state's central accounting records.

The large variance in moneys received and moneys deposited in the state treasury comes about as a result of the university's interpretation and application of the statutory provisions. As a result, the university manages its moneys on a double concept basis; i.e., "state" moneys and "local" moneys. State moneys are basically those specifically appropriated while local moneys are all other moneys passing through the possession of the university, which in 1969-70, amounted to $14 million. The application of these concepts in the accounting system results in a labyrinth of claims, transfers, and account structures. Although the appropriated moneys are disbursed through the state treasury, some of the moneys, such as part of the student fees, are first collected by the university, then transmitted to the state treasury. Similarly, revenues generated by auxiliary enterprises, the Associated Student Store, the foundation, and others, are all received and accounted for as "local" moneys, but are never deposited in the state treasury. In contrast, moneys used for the retirement of bonded debt generally originate at the "local" level but are periodically transferred to and disbursed through the state treasury. On the other hand, some amounts, such as certain scholarship moneys in the Trust and Legacy Fund, originate in the state treasury and are periodically transferred to the university where they become "local" moneys.

Various sections of state law provide for the deposit and control of state moneys. Section 79-306, R.C.M. 1947, specifies that the state treasurer is deisgnated the treasurer of every state board, commission, bureau, department, and state institution. It further provides that all state institutions must deposit daily all moneys received, into the state treasury or accounts controlled by the state treasurer and that all such deposits shall be made in the name of the state treasurer. Legislation supplementing

and, in our opinion, re-enforcing Section 79-306, R.C.M. 1947, is found in Sections 79-201 and 79-601, R.C.M. 1947, which in conjunction with Section 79-306, leave no doubt that all moneys received by a state agency must be deposited in the state treasury. This is further substantiated by the fact that the 1969-71 university appropriation specifically provided that:

> "Unless otherwise provided in this act, all monies received or collected from any source whatsoever by the units named in this act shall be deposited in the state treasury and credited to the proper fund."

Because of the apparent conflict between the statutes and the actual practices at the university, we requested an opinion from the attorney general. We asked the attorney general whether the statutes requiring the deposit of all moneys in the state treasury had application to the local money concept utilized by the university. On December 1, 1970, the attorney general advised us in an opinion that all moneys received or collected from any source by the university must be deposited in the state treasury, subject only to those exceptions set forth in Sections 79-601 and 79-603, R.C.M. 1947.

Section 79-601, R.C.M. 1947, excluded money pledged prior to 1921 for debt retirement, while Section 79-603 provides for the state controller to exercise his discretion in allowing debt retirement moneys and refundable deposits to remain outside of the state treasury. Insofar as we could determine, the state controller has not exercised his discretionary authority in the area of university local moneys.

On the basis of the above cited statutes and the attorney general's opinion, we believe that all money received by the university should be deposited in the state treasury. We believe this is also in consonance with the Treasury Fund Structure Act (Chapter 147, Laws of 1963) which,

in our opinion, summarizes it well by stating that the purpose of the law is "to simplify the accounting system and treasury fund structure of the state, to make possible the full utilization of modern accounting methods, to provide the Legislative Assembly with a greater measure of control over public moneys, and to enable the financial records of the state to accurately reflect governmental costs and revenues." This is not being accomplished when $14 million is not deposited in the treasury or recorded on the state accounting records.

We do mean to imply that all moneys received by the university must be deposited in the state treasury only to be made available by appropriation. This is not the case, as the appropriation process applies to only a few of the state treasury funds, such as the General Fund, Earmarked Revenue Fund, and the Federal and Private Revenue Fund. University money in remaining treasury funds is available to the university without appropriation, within the constraints of other statutes. We believe there are ample provisions in the treasury fund structure to accommodate all the various types of collections handled by the university, such as clearance accounts, agency accounts, and sinking fund accounts.

In view of the statutes and the attorney general's opinion, we believe the university should consult the state controller for the purpose of establishing the appropriate accounts within the state treasury to effect the depositing of all university collections.

RECOMMENDATION

We recommend that:

1. *The state controller review the nature of the moneys held by the university and prescribe the state treasury funds in which these moneys are to be deposited.*

2. *The university transfer the university's bank account balances to the appropriate funds in the state treasury, as prescribed by the state controller, and deposit future receipts therein.*

Deposit of Federal Grant Moneys

Section 79-210, R.C.M. 1947, prescribes that the state treasurer is designated as the fiscal officer of the state to receive from the federal government, or any of its agencies, any and all moneys which may be made available as a grant or grants to the state under any act of Congress, or otherwise, for any purpose. The statute further provides that all such moneys received by the state treasurer will be deposited in the proper fund of the state treasury.

We found that the majority of federal moneys received by the university were not deposited in the state treasury. During 1969-70, for example, over $4.5 million in federal research, education, and training grant moneys were received by the university. Of this amount, only about 14 percent, or $640,000, was processed, in one manner or another, through the state treasury. The remaining $3.9 million came directly to the university through the federal system and was deposited in local bank accounts.

University business office personnel expressed a general unawareness of the requirements of Section 79-210, R.C.M. 1947. Likewise, representatives of the federal agency overseeing the use of the federal moneys also were unaware of the expressed requirements of state law. In this regard, they advised us that as long as the terms of the grant were complied with they would have no objection to the channeling of these moneys through the state treasury.

Aside from the requirements of law, we believe that the channeling of all federal moneys through the state treasury would provide greater assurance to the state and federal authorities that the use of these moneys is in accordance with state law. It would also provide a more informative record of the areas and extent to which federal moneys are being spent within the state.

RECOMMENDATION

We recommend that the university deposit all federal moneys in the state treasury in accordance with Section 79-210, R.C.M. 1947.

Timely Deposit of Student Fees

As discussed above, various state laws require the deposit of all moneys in the state treasury. Specifically, Section 79-306, R.C.M. 1947, requires the daily deposit of all moneys in the state treasury, or in an account controlled by the state treasurer.

We found that as a matter of practice, significant sums of money the university does deposit in the state treasury are held by the university for lengthy periods of time before being deposited in the treasury. During 1969-70, for example, the university received approximately $2.5 million in student fees, which were invested by the university for a period of time before being transmitted to the state treasury. During this period of delay, the university collected some $10,341 in interest income, which was used by the university to supplement their appropriated moneys.

The majority of student fees are received during registration. During the week of January 5, 1970, for example, students registered at the university and paid $737,418 in student fees. This money was immediately

deposited in a university-controlled bank account and invested in the name of the university until February 18, 1970, when it was transferred to the state treasury. During this period of 40 days, the university realized an estimated $6,139 in interest income which was retained at the university level. Review of university records showed that this delay was not uncommon and that it has usually ranged from 13 to 45 days.

University business office officials advised us that the time delay was necessary in that they had to perform a "fee audit" before depositing the student fee money in the state treasury. They described a "fee audit" as being a computer analysis of the moneys received to identify those fees and the amount which should be sent to the state treasury. This is necessary, in the university's view, because a conglomeration of fees is received on registration day, and the various types and respective amounts of the fees have to be analyzed and compiled. (Exhibit B-4 presents an analysis of student fee collections for 1969-70.) Once this is accomplished, the university transmits only those fees to the state treasury which have been appropriated. The remainder of the fees are held at the local level by the university.

While we agree that an analysis and compilation of the various fees is necessary, we know of no reason for delaying the deposit of fees in the state treasury, especially in view of the requirements of law that all moneys be deposited daily. The fact that a conglomeration of fees is involved is of no consequence, in our opinion, since the treasury fund structure is designed to accommodate such circumstances.

We believe that all of the student fees should be deposited on a timely basis in the state treasury. While it is generally construed that the state treasury refers to Helena, provisions can be made for depositing the fees

directly in a state treasurer-controlled account in a local Missoula bank, in much the same manner as is presently done by the Liquor Control Board. This would accomplish the physical handling of the money.

From an accounting standpoint, we believe that all of the student fees could be deposited in a separate clearance account in the state treasury. This would permit accounting recognition and control of the fees until such time that a "fee audit" is completed, after which the various fees could be transferred to the correct university accounts in the state treasury.

RECOMMENDATION

We recommend that:

1. *The state controller establish a clearance account in the state treasury to receive and account for student fees deposited by the university.*
2. *The university deposit all student fees in the state treasury as soon as possible after collection.*

Control Over Cash Prior to Deposit with the University Treasurer

Our review of cash receipts by the university treasurer disclosed that there is adequate internal control once moneys have been receipted by the university treasurer; however, all receipts of the university are not received directly by the business office. Many receipts originate in other departments on campus, or in the auxiliary enterprises. During our audit we noted 33 such original or primary sources of receipts on campus (Exhibit B). Several of these "primary" sources of receipts have a fixed amount of cash on hand as a change fund, others do not. All of them receive cash as a part of their operations. Our review of cash procedures in these areas disclosed that in many cases there is no control over cash receipts prior

to the time they are deposited with the university treasurer. Generally, receipts are not issued to anyone except from the business office. In 12 of the 30 areas of receipts in which we reviewed cash procedures, accountability could not be determined; that is, the system did not provide the information to determine how much cash should have been on hand. This was due to the fact that cash collections were not recorded at the initial point of receipt, or there was no information with which to compute revenues collected since the last deposit with the university treasurer.

In 9 of the 30 areas of receipts in which we reviewed cash procedures, it was not a practice to place a restrictive endorsement upon checks when received. An immediate restrictive endorsement placed on checks received would prevent negotiation of the checks by someone other than the university. In these cases, where the restrictive endorsement is not made, there generally is no endorsement placed on such checks until they are received by the business office. We believe as an internal control measure such endorsements should be placed on all checks received as soon as possible after initial receipt.

We also noted that in several cases advances to employees were made from change funds. Only informal records of such advances were kept in some instances. In one case, we noted an employee had cashed a check and the custodian of the funds held the check as a cash item in the change fund. Such a practice is equivalent to a loan to an employee.

The only "rules" established by the business office as to the depositing of moneys with the university treasurer are contained in a letter dated January 20, 1970, to all departments on campus, stating:

"Effective February 2, 1970, all departments with daily collections of $25.00 or more must make daily deposits to the Business Office. . . . Those departments with a small amount of receipts may hold a deposit until the $25.00 is reached. However, in no case should any amount be held longer than one week before a deposit is made."

During our review of cash procedures in 30 campus departments, we noted that in 15, or 50%, of the departments visited, the requirements of the memorandum were not being followed. Cash collections were held by several departments on campus for various reasons such as necessity for a change fund, necessity for petty purchases, and because daily depositing is often considered a nuisance unless a substantial amount of cash is involved.

During our review of cash procedures, we also noted seven petty cash or change funds which were not recorded in the general ledger or otherwise recognized by the business office. In most of these cases the source of such moneys is cash receipts which have been withheld from deposits with the business office. In most chases the money appeared to be necessary for making change. The amount of money varied between $15 and $145, and in terms of the total cash of the university are relatively insignificant. However, we believe the fact that such moneys exist without the knowledge of the business office indicates a weakness in internal control. In our opinion, all petty cash and change funds should be recorded in the records of the business office.

We observed cash counts made by business office personnel and noted several practices which we consider inadequate cash count procedures. The counts are made only of cash change funds recorded on the books of the university and generally they are only made at year end, so that the personnel involved, who essentially are custodians of these moneys, are aware that a cash count is imminent. According to business office personnel, the "surprise" cash count is utilized but not all cash change funds have

been subjected to this technique. We believe that unannounced cash counts made of all funds periodically throughout the fiscal year are an effective means of internal control over cash funds.

We also noted that all cash on hand was not counted. Cash in envelopes consisting of overages existed in two separate areas on campus at the time of the cash counts. Such cash was called to the attention of business office personnel, yet was not counted by them because it consisted of overages or other cash items. Such overages and other cash items should be deposited when they occur and not be accumulated at locations away from the business office. Above all, when cash is counted, all cash should be counted, not just that amount for which the custodian is accountable.

Such work is properly the duty of an internal auditor. Though the university has budgeted for the position of an internal auditor in the business office, they have not filled the position.

Other cash receipts are received by the business office through the mails. The mail for all university departments is received by a central mail room. The central mail room personnel sort and deliver the mail to the various departments on campus. The business office receives all mail specifically addressed to it and any other mail not specifically addressed to any other department on campus. All mail specifically addressed to other departments is delivered to those departments. This mail often contains cash receipts which are eventually deposited by that department in the university treasury.

A mail clerk in the business office opens all mail received by the business office, sorts cash receipt items out for the university treasurer and sends other mail to the pertinent departments on campus. A pre-listing of such mail receipts is not made by the mail clerk; therefore, cash items are not controlled at the initial point of receipt, even within the business office.

RECOMMENDATION

We recommend that the university:

1. *Identify and examine all areas on or off campus where money is received on behalf of the university and make it mandatory that such payments be made directly to the business office to the extent practicable.*
2. *Where requiring mandatory payment directly to the business office is not considered practicable, (a) prescribe written internal control procedures to assure that accountability for such funds can be determined and that all moneys are deposited with the business office as soon as practicable, (b) consider the needs of these departments or entities and establish appropriate petty cash or change funds, recording all such funds on the accounting records of the university, (c) establish written rules for the use of such petty cash or change funds, (d) require such departments receiving cash items to place restrictive endorsements on all checks received, and (e) establish the practice of having an internal auditor or other representative of the business office make unannounced cash counts of all cash funds on campus periodically throughout the fiscal year at irregular intervals.*

Year End Accounting for Cash Receipts

So that revenues and expenses may be properly matched against each other, it is a good basic practice for governmental agencies, as well as commercial businesses, to record all receipts and disbursements in the

records of the fiscal year in which the collections were received and disbursements made. This is also necessary to provide an accurate historical basis for future budgeting.

We found that the university entered some receipts collected through July 6, 1970, in the records for the fiscal year ended June 30, 1970. This has the effect of overstating cash for that fiscal year and accordingly, resultant financial statements reflect the additional collections.

RECOMMENDATION

We recommend that the university establish proper cutoff procedures for the recording of cash in the fiscal year in which it is received.

Check-Writing Practices

In our review of cash at the university we noted several practices regarding check-writing procedures which we believe should be discontinued or alternative procedures employed.

We noted that many checks drawn by the university on university bank accounts are in favor of the university. For instance, in reviewing the outstanding check list as of June 30, 1970, we noted that 14 separate checks for amounts ranging from $1.50 to $4,811.19, were drawn on June 29, 1970, payable to the university. Such checks were for the purpose of transferring moneys between funds accounted for in the university's books. Each of these 14 instances required a claim form to be prepared which results in a check being written by the computer.

The checks were in turn receipted for by the university treasurer and deposited with the daily receipts to the account of the university in almost always the same bank and therefore the same bank account upon which the check is drawn. We did not determine the exact extent to which this had

happened throughout the year, except that the number of checks written by the university to itself is substantial. Business office personnel have indicated that this practice was prevalent during fiscal year 1969-70, but that they are presently attempting to revise such procedures to make such transfers possible by journal voucher.

We also noted in our review of outstanding checks that some checks are written for as little as one cent (1¢). In the outstanding check list at June 30, 1970, there were checks for 1¢, 3¢, and 5¢ listed, as well as twelve other checks for less than one dollar. All of these checks have been outstanding for more than one year.

In our reviews of other state agencies we have noted that the issuance of checks, claims and warrants for nominal amounts is a widespread practice. Since it is a widespread practice and uneconomical, in our opinion, we believe a statewide policy should be formulated. Such a policy could specify that no state claims, checks or warrants will be issued for nominal amounts unless specifically requested.

RECOMMENDATION

We recommend that:

1. *The university use a journal voucher procedure whereby moneys are transferred between accounts without the issuance of checks or warrants.*
2. *The state controller establish a statewide policy regarding the issuance of checks or claims for minimal amounts.*

Collateralization of Bank Accounts

Section 79-301, R.C.M. 1947, prohibits the state treasurer or depository board from depositing with banks amounts in excess of the security pledged

by the bank for such deposits. The university deposits moneys in bank accounts in four Missoula banks and the banks pledge collateral to secure the deposit of such moneys. The state treasurer receives the collateral pledged for the university's accounts, but since the amount of money on deposit with the banks in the university's accounts is not known to the state treasurer, he cannot determine whether the collateral pledged by the banks is adequate in terms of the cash on deposit. From time to time and especially when the banks change the collateral amount, the state treasurer will make a telephone call to the university treasurer and ask how much is on deposit with the bank at a given moment, in order to assure that the collateral pledged will still be adequate. This fragmentary information as to moneys deposited by the university is not sufficient for the state treasurer to make a proper determination of whether the collateral pledged by banks for the university's accounts is sufficient.

We tested the amounts of collateral pledged by the four Missoula banks against the amounts on deposit by the university for a four-month period. We found that two banks were under-collateralized at various times during the period. Only one bank was adequately collateralized during the entire four-month period.

Since this requirement is a protective measure to safeguard public moneys, we believe the state treasurer should have knowledge of the balance in the university's bank accounts on a day-to-day basis. Elsewhere in this report, we have recommended that all receipts of the university be deposited in the state treasury. We believe that these instances of insufficient collateralization are another reason why this should be done.

RECOMMENDATION

We recommend that, pending the deposit of university bank account balances in the state treasury, the university maintain surveillance over collateral pledged by banks to insure that university cash on deposit in the banks is adequately protected.

CONTINGENT REVOLVING ACCOUNT

Section 79-602, R.C.M. 1947, gives the state controller the authority to establish contingent revolving accounts at state agencies for payment of demands requiring immediate cash payment and the establishment of cash change funds. The statute gives the controller the responsibility to prescribe regulations under which the contingent revolving accounts can be used and pursuant to this, the state controller has issued Management Memo No. 69-2.

The university has received permission from the state controller to establish a contingent revolving account of $15,000. The original appropriation for this amount was made from the General Fund. The university deposited this amount in a separate bank account and draws "emergency checks" on the account periodically requesting reimbursement by the state controller for such disbursements from their state appropriation account. Due to the manner in which all moneys received by the university are deposited, as discussed previously in this report, the state warrants reimbursing this account are never deposited directly to this bank account, but instead are deposited and commingled with all other receipts of the university. Money is transferred to the contingent revolving bank account from other "local" bank accounts by the university treasurer as it is needed in that account to prevent a bank overdraft. The other local bank accounts are repaid by the deposit of the state warrants that were drawn to reimburse the contingent revolving account. This results in the commingling of

contingent revolving account cash and other university moneys even though a separate bank account exists for the contingent revolving account.

A separate subsidiary ledger is maintained for all transactions affecting the contingent revolving account. This record disclosed that the contingent revolving account was overdrawn for much of the 1969-70 fiscal year. At the end of August 1969, for example, the account was overdrawn by $35,954. The account was not always overdrawn but on the average, at the end of each month during 1969-70, the account was overdrawn by $4,504.

The monthly bank statements for the same period of time disclose an average month end balance of $16,582. By comparing the bank statements and the account subsidiary ledger, we determined that an average of $21,086 was due other "local" funds at the end of each month as a result of contingent account overdrafts.

This "lending" of local moneys to the contingent revolving account was made necessary because of the activity in this account. The university draws approximately 1,200 checks per fiscal year, (100 per month), on the contingent revolving account. Our review of these payments revealed that several types of payments made from this account are contrary to the state controller's regulations expressed in Management Memo No. 69-2. The following are examples:

1. Payroll payments for personnel omitted from the regular payroll for various reasons - Management Memo No. 69-2 sent to all agencies by the state controller allows payment of "emergency payroll," but not temporary and student labor nor resigned employees. In cases of this kind, a supplemental payroll should be submitted. The university does not utilize the supplemental payroll procedure. Proper implementation of our recommendation that the university go on the central

payroll system discussed elsewhere in this report should resolve the problems resulting from the present practice. Pending that implementation, the prescribed procedure of submitting a supplemental payroll should be used in lieu of using the contingent revolving account for payroll.

2. Moving expense allowances for new personnel - Although the controller's regulations and Management Memo No. 69-2 allow reimbursement of travel expenses of persons interviewed for positions, we do not believe that moving expenses of new personnel were also intended to be paid from this account unless there is an unusual need for immediate payment. Such payment of moving expenses usually can be made through the state claim-warrant system after a letter of commitment to pay such expenses has been given to the common carrier.

3. Postage meter deposits - The university mail room utilizes a postage meter machine and checks were drawn by the university for as much as $8,000 at a time to reimburse the postage meter. On May 1, 1970, the university changed this procedure and no longer uses the contingent revolving account, but rather now prepares and submits claims.

The payment of all of the above types of expenditures, in addition to payments allowed by the regulations, results in such a demand upon the university's $15,000 contingent revolving account that much of the time during 1969-70, the contingent revolving account would have been overdrawn had not other moneys been loaned to it as discussed above. This "strain" on the account has had another effect on the operation of the account. To accelerate the reimbursement process so that there would be money

available in the account without transferring such substantial amounts from other bank accounts, the university began preparing reimbursement claims more often than had previously been the practice. For instance, in February 1970, 22 claims were drawn to reimburse the account; this represents approximately one claim per day. Some reimbursement claims were noted for as little as $2.50. Business office personnel indicated this was done to effect reimbursement as quickly as possible because the moneys were necessary to meet other demands. They also stated that due to the excessive demand on the account, they had considered increasing the amount of the contingent revolving account.

We believe the university should discontinue paying such items as discussed above through this account as alternate procedures are prescribed for their payment. Basically, the contingent revolving account is to be utilized only for items requiring immediate cash payment. The elimination of the payments from the account such as outlined above, would alleviate some of the demand upon the contingent revolving account and should allow the university to operate the account effectively, requesting reimbursement of the account periodically instead of almost on a daily basis as is now the case.

RECOMMENDATION

We recommend that the university:

1. *Discontinue the commingling of contingent revolving account cash with other moneys and operate the account on an imprest basis.*
2. *Discontinue the payment of payroll and other items not prescribed for payment from the account and confer with the state controller as to alternative methods for paying such items.*

3. *Periodically review activity in the contingent revolving account and request an adjustment of the advance to a level commensurate with such activity.*

PERSONAL SERVICES

University employees can be divided into two broad classes, namely academic employees and non-academic employees. For the most part, non-academic employees include all university personnel who are not employed under an academic contract. The employees in this category are generally involved in non-teaching operations, such as administrative, clerical, and housekeeping type operations at the university.

In contrast, academic employees are those individuals who are employed under formal employment contracts. These contracts, which cover periods ranging from 10 to 12 months, are initiated by the university and approved by the Board of Regents. The majority of the personnel covered by these academic contracts are teaching and instructional staff, although academic contracts are also issued to selected research and library personnel as well as key administrative personnel such as the university president, vice presidents, and business manager, and others.

Control over the employment and personnel records of academic employees is centered in the university president's office whereas the records and control of non-academic personnel is centered in the non-academic personnel office. Because of this division of responsibility and resulting variances in types of records, precise data on the number and type of people employed by the university is not readily available. We were advised, however, that an average of 461 employees were under academic contract during 1969-70. Our review of these contracts and the systems underlying them disclosed several aspects which we believe warrant attention.

"Contract of Employment" Forms

Board of Regents' policy provides that the university unit presidents are authorized to make tentative staff appointments subject to approval by the board. The Montana University System's employment procedures provide for written approval of appointments of academic personnel by the unit president and certification by the secretary of the Board of Regents. A form entitled "Contract of Employment" is used by the units as their official agreements with academic and certain administrative personnel. We noted that several of these forms were on hand at the university signed in balnk by the secretary of the Board of Regents. This weakens control and increases the possibility that terms of academic appointments will not be as intended by the responsible officials. In our opinion, these forms should be signed by the board's secretary only after the terms of employment have been inserted on the forms, the university president has signed the contracts, and the board has approved the appointments.

RECOMMENDATION

We recommend that the university revise its procedure for processing academic employment contracts to provide for the signature of the Board of Regents' secretary only after insertion of the terms of employment on the contract form and approval of the appointments by the university president and the board.

Performance Records for Academic Personnel

A significant part of the financial resources of the State of Montana is devoted to maintenance of university system programs. There is naturally considerable interest by the taxpaying public in the university programs,

what they produce, and their cost. The cost is becoming an increasing concern because the rate of increase in the cost is constantly on the rise. This cost must be borne primarily by the general public because education is financed primarily by general tax dollars.

By the nature of our system of government, the Legislative Assembly must biennially establish the level of support to be granted the Montana University System. Accordingly, the Legislative Assembly is ultimately held accountable for the use of the moneys it appropriates.

The legislature's task of determining the best allocation of available resources between the various services required of the state government is a formidable one. The legislative members must determine the needs of the state, set priorities as to the services provided by each state agency, and evaluate the anticipated benefits to be received in terms of dollars.

It is well recognized that the University System is involved in providing a service where the prime end product, education, is not tangible or easily quantifiable. The measurement of academic effort is similarly a difficult undertaking. We believe, however, that the effort must be made to demonstrate where the University System is placing its emphasis and determine the results achieved.

The Board of Regents has expressed the need for more information in order to adequately establish the general policies within which the University System is to function. The board has recently assigned its executive secretary the duty of establishing a management information system that will provide the means for comparison of the University System's costs by university unit, by school, by department level, and class unit. The board has further stressed the development of accurate unit costs in order to establish the basis for evaluating trends and making intra-unit and system-wide comparisons.

The primary benefits derived from the University System are the result of the professional services provided by the units' faculty members. Correspondingly, the highest cost of operating the units is the compensation paid to the academic personnel. Accordingly, any meaningful evaluation of the use of the resources provided the University System must be based upon accurate information as to the efforts and accomplishments of the units' academic personnel.

The methods historically utilized in the Montana University System as well as by many other states for evaluating academic performance has been accomplished through the observations and personal contact of department heads and other academic administrators. The performance evaluations are rarely documented or compiled in a formal manner for management use in budgeting or otherwise planning for new faculty positions, assignment of instructional loads, relating to instructional and activities of other faculty members, setting salary levels, and allocation of personnel costs to instruction, research, administration, and other academic ventures.

The need for systematic information of this type has been recognized by various individuals within the Montana University System. At Missoula, for example, a management information system of sorts is being built around a "Faculty Service Report." It is contemplated that this reporting system will provide accurate data on various faculty activities, such as student advisement, thesis and dissertation direction, independent study guidance, committee membership, and other activities important to the operation of the university. Various individuals at the university believe such data is necessary to effectively manage the teaching resources and provide a documented basis for informed decisions relative to new faculty positions. There appears to be no question that information of this type would be useful at the university level.

The federal government is increasingly demanding an accurate cost accounting for federally finance dprograms at the university units. Estimates based on undocumented information are becoming less acceptable as a basis for charging costs to federal programs. This is true for all federally financed state programs, not just at the university level.

The need for some type of "faculty service reports" is being increasingly recognized throughout the higher education system of the United States. Various institutions are experimenting with different methods to determine faculty effort and accomplishments. These methods range from estimates of assigned time that are prepared by academic personnel each school term to the maintenance of detail daily records.

The Western Interstate Commission for Higher Education is currently conducting a project called "Faculty Activities Analysis Project" which has the purpose of establishing a model basis for allocating professors' salaries, with the expressed hope that an independent agency of this type can develop a workable system to aid in the evaluation of faculty effort.

In summary, the need for information as to the time, effort, and performance of the faculty members of the Montana University System, and their related cost by activity, is constantly becoming more apparent. The public needs the information to know what their higher education tax dollars are producing. The Legislative Assembly needs the information in order to have a sound basis for allocating state resources. The Board of Regents can use the information in establishing sound policies for guidance at the University System. The information could be invaluable to the individual university units' management in administering their unit's programs. The trend is toward developing formal systems of documenting and reporting the effort and performance of university faculty members and relating the

information to cost. We believe the Montana University System would find the benefits to be derived justify the implementation of a formal time reporting system for its academic personnel.

RECOMMENDATION

We recommend that the university and the other units of the Montana University System evaluate the factors involved in implementing a formal system of documenting on a continuing basis the time expended by its faculty personnel by the nature of their activities and implement such a system.

Administrative Employees Under Contract

Contrary to common belief, academic employment contracts are not limited to just teaching staff and research personnel. The university also issues academic contracts to key administrative personnel. During 1969-70, for example, in excess of 9 percent of the academic contracts were issued to employees in administrative positions with no teaching responsibilities. These employees ranged from the president of the university to the business manager, chief librarian, and athletic coaches. In some instances, these individuals also held academic rank as a professor, associate professor, or a lower position, but in most instances, they do not have permanent tenure.

Our review of university records disclosed that the university plans to place additional administrative personnel under academic contract during the present year. In July 1970, the university evolved a plan to restructure the employee classifications into three classes; namely, academic employees, non-academic employees, and part-time and temporary employees. As a part of this plan, we were informed that 24 additional administrative personnel are scheduled to be placed under academic contracts. These employees occupy

the following type of positions: mechanical engineer, assistant controller, treasurer, married housing manager, financial aids director, physical plant office manager, etc.

In our opinion, administrative personnel should be classified as non-academic employees. Classifying these personnel as academic implies that they are involved in the academic process of teaching when, in fact, they are functioning in support of the academic process. In addition, classification in this manner results in a more complex personnel structure having classifications within classifications. We believe that a much simpler and clearer system to follow would be to classify only teaching employees as academic personnel and all non-teaching employees as non-academic personnel. This would, in our opinion, provide for easier understanding of the university's personnel structure, facilitate personnel administration over each of the respective classes, and result in better disclosure of the number of employees involved in the tasks of teaching and administration. In some instances, the use of an employment contract is probably desirable and necessary. However, we know of no realistic reason why contracts for administrative personnel should be academic contracts.

RECOMMENDATION

We recommend that the university reclassify all administrative employees as non-academic employees.

Central Payroll System

As is the case with all six units of the Montana University System, the University of Montana payroll is processed and handled outside of the state central payroll system. One feature of the central payroll system is that all payroll warrants are prepared and issued by the State Auditor's Office on the basis of uniform time and attendance data furnished by the state agencies. In the case of the university, however, the employees are also paid by state warrants which, in contrast to the central payroll system, are prepared and issued by the university itself on the basis of time and attendance data collected and retained at the university level.

The payroll warrants prepared by the university resemble regular state payroll warrants in that they are drawn on thepayroll revolving fund in the state treasury and are signed by the state auditor. In doing so, the university uses a facsimile signature plate to imprint the state auditor's signature and periodically transfers moneys to the treasury payroll revolving fund by means of journal vouchers and university checks. The journal vouchers are used to transfer appropriated moneys to the payroll revolving fund while the university checks are used to supplement the payroll revolving fund with the amounts necessary to cover the payment of non-appropriated salaries.

Most of the university employees are paid through the above described system, although an insignificant number of salaries were paid through other means such as the university's contingent revolving account. This aspect is discussed elsewhere in this report. A monthly average of 2,667 employees was paid by the university during the 1969-70 academic year. A statistical breakdown of these employees is presented in the following table:

UNIVERSITY OF MONTANA
NUMBER & CLASSES OF EMPLOYEES
Fiscal Year 1969-70

Class	Average Number
Academic Contracts (See Note 1)	461
Clerical	171
Physical Plant - Union	118
Professional Non-contract	160
Security	6
Part-time (See Note 2)	1,751
Total	2,667

Note 1: Includes professionals under contract and teaching employees.

Note 2: Includes approximately 250 graduate and research assistantships.

The state central payroll system was established by Chapter 95, Laws of 1969. The legislation vested the state auditor with the authority and responsibility to provide for the orderly inclusion of all state agencies into the system, but also permitted him to make exceptions for such periods as he deems necessary. The university is one of those exceptions, although the underlying reasons for the exclusion of the university are not documented, nor otherwise obvious.

Discussion with representatives of the university and the State Department of Administration disclosed that the entire University System was temporarily excluded because of the varied types and large volume of employees paid by the university units. They expressed the belief that the wide variance in type

of employees being paid would be difficult to manage under the central payroll system.

We do not believe this constitutes, in itself, sufficient reason for exclusion from the central payroll system. Whether an employee is a professor, doctor, craftsman, or custodian makes no difference, in our opinion, as long as the pay is static or predictable and is based upon fixed rates or fixed periods. The only realistic objection to the inclusion of the university in the central payroll system is, in our view, the volume of employees involved. We understand, however, that the data processing equipment currently used to process the central payroll data is capable of handling the university payroll.

Inclusion of the university in the central payroll system would relieve the university of many of the customary tasks associated with payroll operations, such as monthly, quarterly, and annual earnings reports, and would contribute toward better control and disclosure of personnel costs. In addition, we observed a number of payroll procedures at the university which we believe are undesirable, and which would be corrected by inclusion of the university in the central payroll system. These procedures are discussed in the following comments.

Payroll Processed Before the Fact

Under the university's present payroll procedures, the payroll for certain categories of employees is processed in advance of their actual service. The data upon which the payroll for these employees is based is required to be submitted to the university payroll office by the 10th day of each month. Using this data, the payroll office prepares the salary warrants for the entire month on the assumption that the employees will actually work during that time. In

those instances where an employee takes leave without pay, or otherwise does something to affect his pay after the 10th of the month, the adjustment is made in the following month. For example, an employee taking leave without pay after the 10th of the month would receive a full salary for the month, but would receive an appropriately reduced salary the next month. Likewise, an employee working overtime after the 10th would not be paid for the overtime until the next month.

The undesirable aspects of the present procedure are that employees may be compensated for services not rendered and the actual cost of personal services is distorted from month to month.

Although the situation described above does not apply to the entire university payroll, it does include those employees referred to as schedule "B" and "D" employees, numbering about 331 employees at the time of our review.

We believe that salary payments should be based upon accurate and factual data and not assumptions made before the fact. In the case of payroll, this is customarily accomplished by means of a time lag from the end of the payroll period to the time of payroll processing. Inclusion in the central payroll system would correct this situation.

Department of Administration Personnel Listing

Section 82-109.4, R.C.M. 1947, requires that the state controller maintain a schedule of all salaries paid to personnel of all state executive agencies. It also specifies that the controller shall only approve those payroll claims which agree with that schedule. Our test of 50 employees on the university payroll at June 1, 1970, disclosed only six instances where the controller's schedule was in agreement with actual salary payments. In all the remaining instances the salary data shown on the controller's schedule was not correct. In some

instances the controller's schedule listed employees who were not on the payroll, while in other instances, employees were paid but now shown on the controller's schedule. In most instances, however, the actual salary paid exceeded that reflected on the controller's schedule. While the reasons for this disparity are not clear, we believe inclusion in the central payroll system would rectify it. Inclusion in the central payroll system would provide for uniform payroll input data and would result in payroll information being prepared on the same basis as the payrolls for other state agencies.

Control of Facsimile Signature Plate

The salary warrants issued by the university are prepared using a facsimile signature plate bearing the signature of the state auditor and a university official. The use of the facsimile signature plates resulted from a proposal made to the state controller and state auditor by the university. A part of the control proposed by the university included a log or record showing the time when the facsimile signature plates were removed from and replaced in the safe and who was responsible for their custody while in use. At the time of our review no log or record showing this information was being maintained. As a result, accountability for use of the signature plates could not be determined.

Since the facsimile signature plates represent the official signature of the chief disbursing officer of the state and can be used to draw on state moneys, we believe an accurate record should be kept pinpointing their use and the individuals responsible for them at any given period. This problem would be alleviated by inclusion in the central payroll system.

RECOMMENDATION

We recommend that the university work with the state controller and state auditor in placing the payroll for all university employees on the central payroll system.

Vacation Leave

Sections 59-1001 and 59-1002, R.C.M. 1947, provide that state employees are entitled to vacation leave within specific rates and limits prescribed by law, and specifies that amount of leave which can be accumulated. Section 59-1007 excludes school teachers from these provisions.

Our review disclosed that many non-teaching employees of the university are generally accruing and being granted leave at rates in excess of the limits set by law. We found, for example, that:

1. Administrative personnel on 11 and 12-month academic contracts are credited with 23 days vacation leave at the beginning of the year, while state law provides for the graduated accrual of vacation leave.
2. Administrative personnel on 11 and 12-month academic contracts are allowed to take vacation leave before the completion of one year continuous employment, as required by state law.
3. Employees are granted leave at rates in excess of those allowed by statute, as follows:
   (a) Administrative personnel on 11 and 12-month academic contracts are granted 23 days of vacation leave starting with their first year of employment whereas state law allows 15 days per year for the first 10 years, and a maximum of 24 days only after 20 years of employment.
   (b) Professional-administrative employees not under academic contracts (known as "schedule D employees")

are granted 23 days of vacation leave each year after only four years of employment while state law permits only 15 days after a comparable period of service.

(c) Clerical-administrative employees (known as "schedule B employees") are allowed 22 days of vacation leave each year after only four years of employment in contrast to that allowed by state law as described above.

As evidenced by the above points, the university's vacation leave policies and practices are different from those prescribed by state law. We found that the university was cognizant of the state's leave laws at least as far back as 1966, and in March 1970, officials of the university were certain of the fact that their leave policies were at variance with state law. In March 1970, the attorney general advised the university that the benefits and limitations of the state leave laws applied to all non-academic university employees. The attorney general's opinion, which was expressed in response to a question posed by the university, stated that the university had no discretion in the application of this law. Nevertheless, the university continued to utilize leave policies and rates which were contrary to law.

In order to further clarify this matter, we requested an opinion from the attorney general. In his opinion expressed in a letter dated November 16, 1970, the attorney general concluded that " . . . administrative personnel (at the university units) are governed by the provision of Section 59-1001, R.C.M. 1947." Accordingly, we believe that if the university believes its administrative personnel should have vacation allowances in excess of the amount provided for in Section 59-1001, legislative approval should be requested to specify the administrative positions eligible and the allowances to which they will be entitled.

RECOMMENDATION

We recommend that the university limit vacation allowances to administrative employees to the rates provided for in the state statutes.

Leave Records

The university personnel office maintains two sets of leave records for non-academic personnel. One set of records is maintained through the use of data processing equipment with the end product being a monthly machine listing. The machine listing is prepared on the basis of time cards.

The second set of leave records consists of hand-posted cards reflecting data which is also shown on the data processing listing. The source of the data posted to the manually maintained records is the same employee time cards used for the data processing listing. Thus, the two systems are identical in data shown.

RECOMMENDATION

We recommend that the university discontinue the use of manually prepared leave records.

Long-Term Disability Insurance

Section 11-1024, R.C.M. 1947, authorizes state agencies to enter into group insurance plans for the benefit of their employees and to contribute a maximum of $7.50 per month for each employee.

Pursuant to this law, the university contributes $7.50 per employee each month to a group health insurance plan for university employees. In addition to this, however, the university is also contributing the entire premium for

a group long-term disability insurance plan for all employees. This plan is based upon an agreement entered into with an insurance carrier and has been in force since January 1970. The plan is basically a salary continuation plan in the event university employees become disabled and unable to work. The plan is not a substitute for workmen's compensation or similar legislation, and the benefits under the plan are reduced by the amounts recovered from workmen's compensation or similar sources.

During the period of January through August 1970, the university paid $16,488 in premiums on the plan, all of which was paid from state appropriated moneys.

We were of the opinion that the university's contribution to the long-term disability insurance plan is not permitted by Montana statutes and requested an opinion on the matter from the attorney general. On October 21, 1970, the attorney general advised us in a letter opinion that a group salary continuation plan such as the university has is not provided for in Section 11-1024, R.C.M. 1947, and that such a plan could not be entered into outside of the authority granted by Section 11-1024. As a result, the university's payment of premiums for employee group long-term disability insurance is not authorized by state law.

If the university believes it is in their best interest to provide this insurance to their employees, we believe legislative approval should be sought to permit the coverage.

RECOMMENDATION

We recommend that the university limit contributions to employee insurance plans to those plans authorized by statute.

Contributions for Group Health Insurance

As described above, Section 11-1024, R.C.M. 1947, prohibits state contributions in excess of $7.50 per employee each month for employee insurance plans. In applying this statute to group health insurance for university employees, the university has conceived an interpretation of the statute which we believe is incorrect.

The university has construed the statutory limitation of $7.50 to be permissive to the extent that the actual limitation is $90 a year ($7.50 x 12 months) for each employee. Under this concept, the university has been contributing $9 each month for participating 10-month contract employees over the 10-month period they are paid. An amount in excess of the employees' monthly contribution is also withhold from the employees' monthly earnings over the 10-month period. As the university collects the contributions from the

employees and from the state appropriated moneys which represent the university's contribution, the university places these amounts in a special university controlled holding account from which monthly premium payments are made to the insurance company at the same rate as for 12-month employees. As a result of this procedure, a reserve is built up in the holding account to pay the cost of the premiums for the months of July and August when the 10-month employees are not employed by the university.

We requested an opinion from the attorney general as to whether the university system can contribute $9 per month per employee over a 10-month period in lieu of the $7.50 monthly limit on state contributions. On October 21, 1970, the attorney general responded that, in his opinion, only $7.50 per month can be contributed and that any payment in excess of this amount per month is without authority.

Based upon this opinion, and similar to the situation in the preceding section, we believe that if the university believes it is in their best interest to provide insurance coverage for 10-month academic employees during the summer months, legislative approval should be sought to permit such coverage.

RECOMMENDATION

We recommend that the university limit the university's contributions to employee group insurance plans to the maximum allowed by law, which is currently $7.50 per month for each employee.

Industrial Accident Insurance for Non-Employees

Industrial accident insurance consists of insurance designed to protect both the employee and employer in the event of work related accidents. In the case of state agencies, participation in the state industrial accident

insurance program is mandatory. The premiums for this insurance are computed at a factor which is applied against the dollar value of salaries paid. In the case of the university, all employees are covered by state industrial accident insurance, including those employees paid on "payroll 5." Payroll 5 consists of payments, including honorariums, to individuals such as consultants and entertainers. During 1969-70, for example, approximately $104,000 was paid through payroll 5, for which the university paid $207 in premiums for state industrial accident insurance.

Discussion with university officials disclosed that they were uncertain as to whether the type of individuals on payroll 5 should be covered by industrial accident insurance. They stated that since the cost was nominal, they elected to provide these individuals with the coverage.

We believe the necessity for industrial accident insurance coverage for consultants, guest speakers, and entertainers is questionable. In most respects, consultants, entertainers, etc., are functioning as independent contractors. They are contracted for a one-time specific purpose and receive a fee for such effort. For example, one entertainer performed one night for a fee of $4,000, upon which the university paid $8 for state industrial accident insurance.

While we recognize that the amount of actual premiums paid are relatively small, it nevertheless represents a cash outlay which could have been avoided. Furthermore, we believe a more salient aspect exists with respect to the potential liability. We know of no reason why the state industrial accident insurance program should be subjected to the potential liability resulting from possible claims filed by individuals on payroll 5 when these individuals are not employees. Any need for industrial accident coverage for such individuals is further alleviated, in our opinion, by the fact that the university has liability coverage through a commercial insurance company.

RECOMMENDATION

We recommend that the university contact the State Industrial Accident Board to resolve the necessity of industrial accident coverage for those individuals on payroll 5.

Taxable Consulting Fees

Our examination of the university payroll disclosed that the university has been paying considerable sums to individuals as remuneration for consultant services. Because of the manner in which the university payroll is compiled, the total amount of consultant fees paid by the university cannot be readily obtained. We are certain, however, that it is substantial and ranges well over $100,000 per year.

The university has paid consultant fees to both regular university employees and outside experts or specialists. For purposes of discussion, we have divided our comments on consultants into two categories: outside consultant and intra-campus consultants.

Outside Consultants

Outside consultants consist of individuals who are not regularly employed by the university. They are generally experts, specialists, or others employed by the university to give advice, assist in accomplishing a task, or achieve a specified purpose. Outside consultants can be either from out of state or from within the state, but are not, in any event, regular employees of the university.

Our test of university payrolls disclosed an instance where an outside expert was employed by the university on a half-time basis as a consultant. His task was to assist in the organization of a university-affiliated function. Although he was from another state, he was headquartered in Missoula during his period of consulting and was paid a substantial sum in consultant fees during 1969.

University records indicate that no amounts were withheld from this consultant's pay because, in the university's view, he was a consultant functioning as an independent contractor rather than an employee of the university. The university did, however, report the 1969 earnings of this individual to the federal and state taxing authorities by means of a form W-2. Nevertheless, we were advised by the State Board of Equalization that the consultant in question did not file a state tax return for 1969 and, as a result, the state may have lost that tax revenue.

Since our test of outside consultants was not comprehensive in nature, we are unable to assess the total significance of this matter. However, we observed that there are numerous other instances where outside consultants have been employed by various elements of the university and there is a definite possibility that the appropriate state income taxes have not been collected from these outside consultants.

RECOMMENDATION

We recommend that the university consult with the State Board of Equalization and Federal Internal Revenue Service to determine the procedures necessary to properly report the payment of outside consultant fees and insure the collection of taxes due.

Intra-Campus Consultants

In contrast to outside consultants, intra-campus consultants are regular employees of the university who perform consulting services in connection with university sponsored projects, such as research or studies. In these instances, a definite employer-employee relationship exists between the university and the consultant because the consultant is already receiving compensation as an employee.

The university's use of intra-campus consultants has been significant in the past in terms of dollar volume. Consulting fees paid in recent years were as follows:

UNIVERSITY OF MONTANA
CONSULTING FEES PAID TO UNIVERSITY EMPLOYEES
Calendar Years

1969	1968	1967
$62,854	$67,403	$56,576

Although the university has reported the compensation to federal and state tax authorities by means of W-2 forms, the university did not withhold amounts for income taxes from such payments to these employees through June 30, 1970. The university did not withhold even though they were specifically directed to withhold amounts for federal income taxes as early as July 1968. On that date the Federal Internal Revenue Service directed the university, on the basis of revenue ruling 55-583, to withhold income taxes on fees paid to university employees for consulting services. At the time we commenced our review in May 1970, the university was not complying with the federal directive. As of July 1, 1970, however, the university started to withhold income taxes and other amounts on intra-campus consultants. We believe this action should have been taken in July 1968, or as soon as possible thereafter.

During the course of our review we have discussed these matters with the State Board of Equalization. Accordingly, any further action to insure the collection of all taxes due from consultants is their prerogative.

RECOMMENDATION

We recommend that the university continue to withhold the proper amounts from all consultants who are university employees.

President's Contract

In reviewing the Board of Regents' Board Policy Handbook, we noted that the board minutes of August 20, 1951, p. 213, V. 18, stated:

> "That for necessity and convenience of several state institutions of higher education, the Presidnet's residence at each unit of the . . . Montana University System shall be maintained at the expense of the unit on or near the campus. Where the residence is provided by the State, the building shall be so made available to the president free of rent, and all heat and utilities shall be provided by the institution. Where the residence is not provided by the State, the institution shall pay the president, as necessary expenses each month, $60 in lieu of rent as at present, and $27 in lieu of fuel and utilities."

In referring to the rental and fuel and utility rates to be received by the president, the board minutes of July 8, 1963 stated that "the amount of money involved is now dependent upon contract," with no new approved rates given by the board. In 1958 the allowance was increased to $125 per month, and in 1966 to $200 per month in lieu of rent. The 1966 allowance was paid only temporarily until the president's residence at Montana State University was available for occupancy. We were informed by the university system executive secretary that each employment contract for the presidents of the various units specify perquisites in addition to the basic salary, and that inasmuch as each president now has a residence furnished by the college or university, no president is receiving the monthly allowance in lieu of rent.

The president's employment contrat at the university provides for his salary and a residence. No mention was made in the contract of additional benefits being provided such as yard maintenance, part-time housekeeper, paid utilities, etc.

We believe that the president's contract should specify the salary and benefits to be received, in accordance with the policy of the Board of Regents.

RECOMMENDATION

We recommend that future contracts with the president specify the total salary and benefits to be provided by the university.

INVENTORIES

Our audit effort in the area of inventories was limited in scope because a private auditing firm was analyzing and reviewing matters which encompassed inventories. In coordination with this audit firm, which was reviewing the university bond accounts, we observed and test checked the year end inventory counts, and provided them with our findings. In reciprocity, the audit firm performed other audit procedures necessary in the area of inventories and provided us with their findings and conclusions. Accordingly, some of the information presented below is the product of a joint effort.

Perpetual Records

Our review of inventories disclosed that with the exception of the associated students store (bookstore) no effective system of perpetual inventories was used by the university. We found that no perpetual inventory records were maintained over meat and other aspects of the food service operations and in those instances where some sort of perpetual records are mentioned, such as the print shop, the records are not maintained up to date.

In another instance, the actual commodities and supplies in the inventory were in a dispersed state and the perpetual records inadequate to the extent that a physical inventory count and reconciliation with the records would have been nearly impossible. To overcome this the university decided not to count the inventory, but rather obtained a certification from the individual responsible as to the amount of inventory on hand at June 30, 1970. This certification indicated that about $25,000 was on hand at year end, while the

university accounting records reflected over $81,000 in inventory. On the basis of the certification and some verification of accounting data, the university adjusted the inventory accounts from $81,000 to $25,000. Thus, the accounting record balance, which is a reflection of the perpetual records, was reduced over $56,000 without any physical verification that such an adjustment of perpetual records was proper. University officials informed us that $39,000 of the $56,000 writedown was attributable to a receivable account, but that the remaining $17,000 is unexplainable.

We also found numerous instances where the existing perpetual records were maintained in units different from those items actually found in the inventory. For example, the perpetual records reflected grapefruit juice in cases of 6 cans when, in fact, the cases on hand contained 8 cans. Differences such as this complicate the task of maintaining accurate perpetual records and widen the possibility of errors and mistakes throughout the whole process. The perpetual inventory records should be a reflection of the actual physical inventory.

We believe the entire perpetual inventory system of the university needs to be reviewed, redesigned, and modified to be more effective and meaningful. The use of a realistic system of perpetual inventory records can be of assistance in determining re-order points, establishing a means of detecting theft and other shortages, and providing a means of supporting the data recorded in the accounting records.

RECOMMENDATION

We recommend that the university consult with the state controller to design and implement an effective perpetual inventory record system in those areas where such a system is appropriate.

Instructions for Physical Inventory

With the exception of the Associated Students Store (bookstore) there are no written instructions for the taking of a physical inventory. Written instructions provide the basis for a uniform approach to inventory-taking and are the one technique which assures that all items are counted and properly recorded. Adequate written instructions should define the necessary procedures relating to cutoffs, counting techniques, as well as the resolving of differences. In this regard, the Associated Students Store prepared and used an effective set of instructions relating to inventory and other year end procedures. We believe the university should establish similar instructions for all physical inventory processes.

RECOMMENDATION

We recommend that the university devise and implement a meaningful set of written instructions governing physical inventory processes.

Control Over Food Storage Area

At the time of our review, access to the food storage area was not effectively controlled and the requisitions system for food used was inadequate. During the course of our physical count we noted that the door giving access to the food storage area was unlocked even though a locking mechanism was available. Keys to the locking mechanism were widely dispersed among the food service staff. We also noted that requisitions used to record the removal of food from the storage area were not always used and that they were not numbered.

We believe the university should restrict the access to the food storage area to only those individuals having duties which necessitate such access. In the instant case this may necessitate the changing of the locking mechanism and

the reissuance of keys. In addition, we believe the university should implement a system of prenumbered requisitions, so that requisitions can be controlled, and an accurate record of usage maintained.

RECOMMENDATION

We recommend that the university restrict the access to the food storage areas to authorized personnel and establish a system of prenumbered requisitions to control and reflect the issuance of food for use.

PLANT, PROPERTY, AND EQUIPMENT

While the university is a large business in terms of operations, it is also a large business in terms of physical properties. On June 30, 1970, the university accounting records reflected over $43.1 million in fixed assets. This balance was comprised of the following general classes of assets:

UNIVERSITY OF MONTANA
PLANT, PROPERTY, AND EQUIPMENT BALANCES
June 30, 1970

Equipment	$ 8.7 million
Buildings	32.4
Land	2.0
Total	$43.1 million

Our review of fixed assets disclosed a number of areas where we believe action should be taken by the university. This action is necessary to establish more positive control and accountability over fixed assets and to provide for more accurate recognition and reporting of university plant, property, and equipment values.

Responsibility for Property Records and Property Management

At the present time the duties and responsibilities relative to the control and utilization of fixed assets are dispersed among numerous individuals and groups. Building and equipment records are maintained by the same individual within the business office who is also responsible for the purchasing. Real property records are maintained by other individuals within the business office who also share other duties. In contrast, the physical management and utilization of university assets is determined by the various departments and instrumentalities of the university. For example, the operation, maintenance, custody, and utilization of buildings, grounds, and other physical facilities is the responsibility of the physical plant department. On the other hand, the operation, maintenance, custody, and utilization of equipment and similar assets are the responsibility of the users whether they be departments, offices, etc. In short, there is no one individual or office having specific responsibility for the recording, management, and utilization of fixed assets. While it is reasonable to hold the users of fixed assets accountable for the custody and protection of fixed assets, we believe there should be an office which occupies an overview position. The staff of this office should be charged with the task of maintaining accurate and timely fixed asset records, controlling the acquisition, movement and utilization of fixed assets, and holding the users accountable for fixed assets under their control. We believe a centralized point of control such as this would provide a realistic basis for the recognition of fixed assets in the accounting records, facilitate the undertaking of periodic physical inventories, and would also result in other benefits such as greater utilization of fixed assets, thereby possibly deferring additional purchases. At the present time, no concerted centralized effort of this type is being conducted by the university.

RECOMMENDATION

We recommend that the university establish a central point of control over the acquisition, recording, assignment, and utilization of all fixed assets.

Periodic Physical Inventory

Business office personnel advised us that although physical tests have been made on a fragmented basis over the years, no overall physical examination and count of plant, property, and equipment has ever been made. In the past, the business office has recorded acquisitions and deletions of assets from the perpetual inventory records without assurance as to the accuracy of the information. The present system provides no assurance that all deletions of assets are reported or even noticed by the university, especially in the case of theft or other disappearance. Likewise, the reporting and recording of newly acquired assets is also subject to the timeliness and accuracy of reporting or detection by the business office.

It has long been a common practic in business and industry to verify the accuracy of perpetual asset records by means of a periodic physical examination and count. In conformance with this generally accepted practice, the state controller issued Management Memo 70-17, dated June 26, 1970, instructing all state agencies to take a physical inventory each year and providing some criteria with respect to property management.

Although the primary benefit of a physical examination and count is to verify the accuracy of the asset records, other important benefits also accrue. A physical inventory discloses the existence of misused, obsolete, or unused assets and is often the sole means of insuring personal accountability for fixed assets. Accordingly, we believe the university should establish a

system to perform periodic physical inventories of all fixed assets, resolve the discrepancies disclosed by the physical count, and adjust the accounting records accordingly upon the written authority of appropriate management officials.

RECOMMENDATION

We recommend that the university take a physical inventory of all university fixed assets on a regularly scheduled basis and adjust the records accordingly after written authority is obtained from the appropriate management officials to write-off missing items.

Asset Recording System

Presently the system used to identify and record asset transactions is a very informal process. Under the present method, the business office spends considerable time at year end reviewing claims processed during the course of the year to identify asset transactions to be segregated for entry on the university's asset records. Upon identification, the claims are analyzed and data extracted manually for entry on a preprinted card form. These cards are manually sorted by functional area, such as administration, physical plant, education, etc., which are, in turn, sorted into sub-categories such as buildings, land, etc. This data is then summarized in various manners and entered on summary sheets which are eventually posted to the accounting records. This method of capitalizing equipment purchases substantially increases the possibility that equipment may be acquired but not recognized on the accounting records. Although we did not attempt to identify such instances, it is very likely that this has occurred based upon our discussions with business office personnel and the high volume of claims (over 30,000 annually).

Considering the fact that almost all university claims are being processed through data processing equipment, we believe the university should devise a means of identifying and recording asset transactions as they occur, rather than waiting until year end. This could be accomplished by means of data processing techniques rather than the present manual effort.

RECOMMENDATION

We recommend that the university devise and implement a procedure whereby assets are identified and recorded upon acquisition and deletions are recorded at the time of the transaction, preferably through the use of data processing equipment.

Detail Property Records

Our review of property records disclosed that although the records appear to reflect the type, location and users of various assets, many inaccuracies exist because of the manner in which assets are controlled and accounted for. We found, for example, that assets were not stenciled or marked with tags or decals, or similarly identified and that no system exists to control the movement of equipment.

Because of the absence of a physical inventory procedure, the recorded location of assets may be quite inaccurate. This is substantiated by tests performed by the federal auditor in the area of federally financed equipment used by the university. The federal auditor's tests disclosed a number of discrepancies. He found, for example, that of 123 items tested, 5 equipment items could not be located and that an additional 11 items were either broken, obsolete, or not in use. The federal auditor could not originally locate many equipment items based upon the records and the fact that he was eventually able to find the majority of items cannot be attributed to the system. He had to enlist the aid of the university personnel involved in the federally-sponsored

projects. Success in locating the equipment was directly attributable, in the federal auditor's opinion, to the fact that the original personnel were still located at the university, rather than due to an efficient inventory management system.

We believe that matters such as asset use, location, and accountability should not be a matter of testimony or memory. Property records maintained by the university should show, as a minimum, the date of acquisition, vendor, abbreviated description, accountable department or unit, location, cost, source of acquisition moneys, and date and method of final disposition. Such information is necessary to accomplish basic management functions with respect to plant, property, and equipment, as follows:

1. Evaluate the use of present assets.
2. Provide a basis for budgetary planning for future acquisitions.
3. Control and verify property account balances.
4. Assign stewardship and custody responsibilities.
5. Establish a basis for preparation of reports to state and federal offices.
6. Provide a meaningful and accurate base for insurance coverage and proof of loss in the event of fire, theft, or similar catastrophe.

Because of the repetitive nature of the tasks involved in recording, adjusting, and reporting of asset data and the fact that much of the underlying data is acquired through the claim process, the job of maintaining detailed property records can be adapted to data processing equipment. Accordingly, we believe the university should revise their asset records to show that information necessary for effective asset control and investigate the possibility of using data processing techniques to accomplish this ongoing task.

RECOMMENDATION

We recommend that the university:

1. *Devise and implement a system of tags or decals to identify all university property.*
2. *Establish realistic and accurate records showing descriptive data, location, accountable office or officers, etc., for university assets.*
3. *Investigate the feasibility of using data processing equipment to record and report university assets in a meaningful manner.*

Real Property

As a part of our review of university property accounts, we inquired into the legal ownership and use of real property by the university. For the most part, our inquiries were limited to interviews of university officials as well as a comparison of records at the university, Secretary of State's Office, and University System Office in Helena. Our plans were to compare the information from these sources with that recorded at the county level - the primary and legal place for recording of real property. During this time, however, the university undertook its own review of real property use and ownership, including a check of county records. Since this would duplicate our intended test of county records, we deferred any further work on our part pending the university's findings.

The university found that almost all of the real property it was using was properly recorded and apparently legally secure. The one exception was about 160 acres of land granted to the university by the federal government in 1908. This land, referred to as the biological station, is located at

Yellow Bay on Flathead Lake in Lake county. Although the station has been, and is being, used by the university, its legal ownership was apparently never recorded at the county level. As a result, numerous legal problems could have evolved if, over the years, private parties had laid claim to or made use of some or all of the land.

RECOMMENDATION

We recommend that the university formulate procedures to assure that as real property is acquired its use and ownership are legally assured and recorded in university records.

Policy on Capitalizing Expenditures

Within the framework of accounting, capitalization refers to the accounting recognition of expenditures for an asset which will last and benefit an operation over an extended period. For the most part, capitalization is practiced in business and industry for tax and accounting purposes. Accounting for fixed assets in government is necessary primarily for establishing accountability and other management purposes. In some instances, capitalization is essential for the matching of costs and revenues, but this is generally limited to enterprise-type operations.

Normally, capitalization is performed under predetermined criteria. In the case of the university, an informal policy of capitalizing all asset expenditures in excess of $75 has been practiced, except for books and furniture, which are entirely capitalized. In this regard, our test of property records disclosed a number of instances where relatively low value items were capitalized apparently under the premise that they would last more than one year. We question the necessity of recording these items as capital assets. On the other hand,

capitalization may provide a means of controlling the use of valuable walk-away assets and preventing their misuse or loss. In these instances, however, other means could be used to protect these assets, such as stenciling and check-out or hand receipt systems.

State controller's Management Memo 70-17 specifies that all fixed assets having a cost of $100 or more and expected life in excess of one year should be capitalized. The memo indicates, however, that comprehensive property management instructions are currently being formulated and that pending their issuance, agencies should comply with the interim criteria. We believe the criteria established by the state controller is reasonable. There may be some exceptions in the case of the university, especially where books and collections are involved. As a result, we believe the university should consult with the state controller to determine an acceptable practice with respect to capitalization of valuable books and collections.

RECOMMENDATION

We recommend that the university:

1. *Consult with the state controller to determine a uniform criteria for the capitalization of valuable and easily portable assets such as books, collections, and certain types of equipment.*
2. *Comply with the state controller's directives with respect to capitalization of fixed assets.*

Capitalizing Painting Expenses

The university is capitalizing expenditures for the repainting of existing structures. Our test of property records disclosed that it has been

general practice to capitalize the expense of painting dormitories and family housing even though the initial cost of painting at the time of construction was also capitalized. During 1969-70, for example, at least $3,150 was capitalized in this manner while in 1966-67, in excess of $15,000 in painting expenses was capitalized.

University officials advised us that the decision to capitalize painting expenses involves consideration of the fact that painting lasts many year and that capitalization makes it easier to meet bond requirements. With respect to the latter aspect, officials expressed the opinion that capitalization reduces operating expenses during the year and, as a result, provides greater net revenues to meet the annual earnings requirements set out in the bond indentures. While this may be true, we believe it is incorrect to capitalize painting expenses. To do so results in an inflation of the actual cost of an asset over its true value since the initial cost of painting is capitalized as a part of construction, and the subsequent capitalization of repainting inflates this building cost. In most business, industry, and governmental environments, repainting is classified as a maintenance and repair expense, and as such is charged to current operations. We believe this should also be the case with the university.

RECOMMENDATION

We recommend that the university discontinue capitalizing the cost of repainting university structures.

Capitalization of Construction Costs

We found that a number of projects under construction or completed at the university have been under-capitalized by significant amounts. For example, the university center, a $4.4 million completed project, was

under-capitalized by about 11 per cent, or $488,000. Similarly, approximately $128,000, or 8 per cent, of the total cost of 5 other projects under construction, including the new science center, has not been capitalized.

Insofar as we could determine, the failure to properly capitalize all costs stems primarily from some confusion in the relationship and communication between the state architect and engineer's office and the university, as well as the failure of the university to use a "work in progress" account. In this regard, both the university and architect-engineer spend money on projects while only the university attempts to capitalize the amount spent. The end result is a process in which the university prepares "dummy claims" for progress payments made by the architect-engineer and enters these into the university accounting system. As previously described, the amount capitalized at year end is based upon a retroactive review of claims. Since this is tedious and time-consuming, it is possible that a number of claims are overlooked or misread, resulting in an erroneous amount to be capitalized. The amount derived in this manner and the amount entered in the accounting system are never reconciled and, as a result, overlooked claims or other errors are not detected. In the case of the university center, the accounting records reflect construction costs of $4.4 million while the tabulated claims amounted to only $3.9 million, a variance of over 11 per cent from the total costs.

We believe the university should utilize a "construction in progress" account to recognize and account for the payment of expenses as construction proceeds. Charges to the construction in progress account should be based upon actual payments as they are made, and not upon a retroactive review of claims.

RECOMMENDATION

We recommend that the university develop and implement a system of capitalizing construction work in progress as the expenditures are made.

Deposit of Construction Moneys in Treasury Accounts

The Treasury Fund Structure Act, Section 79-410, R.C.M. 1947, provides for a Bond Proceeds and Insurance Clearance Fund. The statute specifies that, among other things, the bond proceeds fund consists of moneys deposited in the state treasury obtained from the sale of bonds, certificates of indebtedness, and other similar obligations. Section 79-415, a related provision of the same act, provides that moneys deposited in the bond proceeds fund may be paid out of the treasury under general laws, and contracts entered into under statutes permitting such payments. Accordingly, the implied intent is that the sale of any bonds by the state or its instrumentalities should result in a deposit of the proceeds in the bond proceeds fund of the state treasury.

As a part of the financing for the recently completed university center, the university sold $4.3 million in revenue bonds. The proceeds from the sale of these bonds were retained in a local bank account by the university until such time that amounts were needed for progress payments to the contractor. When these payments came due, the university transferred the necessary amounts to the state treasurer for deposit in the Federal and Private Revenue Fund, upon which payment claims were drawn. As a result, most of the money eventually passed through the state treasurer's accounts, but not in the manner obviously intended by the Treasury Fund Structure Act.

In our opinion, the proceeds from the sale of the revenue bonds should have been deposited in the state treasury Bond Proceed and Insurance Clearance Fund.

Although we realize that the actions taken by the university are governed to a certain extent by the respective bond indentures, we believe that every effort should be made to assure that provisions of the bond indentures are in conformity with statutory provisions. In the case at hand, close co-operation between the university, state treasurer and state controller could have resulted in a procedure in which the requirements of law and of the indenture were met. As it now stands, the requirements of law were not achieved, in our opinion, and as a result the control and disclosure necessary to effectively manage and report state operations at the state level were not attained.

RECOMMENDATION

We recommend that the university deposit the proceeds from all bond sales in the Bond Proceeds and Insurance Clearance Fund in the state treasury and that any future bond indentures be written to conform to this statutory procedure.

Equipment Acquired Through Lease-Purchase

In July 1967, the university entered into a lease-purchase agreement to acquire five pianos. From all indications in the records, it was the intent of the university to purchase rather than lease the pianos from the outset. This is evidenced by the fact that purchase documents indicated that the total purchase price of $4,475 would be payable in ten installments of $447 over a five-year period. At June 30, 1970, a balance of $1,790 was outstanding on the transactions with two years to go.

The acquisition of the pianos was incorrectly handled from an accounting standpoint in that the pianos were not capitalized in the fixed asset accounts nor was the unpaid balance recognized as a liability in the records or reports

of the university. Generally accepted governmental accounting principles prescribe that assets acquired under lease-purchase arrangements which are used as a method of purchase financing, should be recognized at full value in the accounting records with an accompanying recognition of a liability or encumbrance for the unpaid amount. This is not the case in the instance at hand, and there are indications that similar instances exist.

We commented on a similar practice in our report on the Department of State Lands and Investments (June 1970). In conjunction with that report we made two recommendations which are also appropriate here.

RECOMMENDATION

We recommend that:

1. *The university disclose the acquisition of assets through lease-purchase arrangements in its accounting records.*
2. *The state controller prescribe accounting and purchasing procedures to be followed by all state agencies with respect to the acquisition of assets under lease-purchase arrangements.*

Insurance Coverage

The plant, property, equipment and operations of the university are covered by a number of insurance policies as follows:

1. Fire and extended coverage insurance - a statewide policy purchased by the State Board of Examiners.
2. Multi-peril policy - purchased by the university for liability and property coverage to supplement the statewide policy.

3. Multi-peril policies - purchased by the university to provide collision and liability coverage for boats at the Yellow Bay biological station.

4. Automobile insurance - purchased by Board of Examiners on a statewide basis.

5. Special policies - purchased occasionally by the university to provide coverage for valuable property such as paintings, belonging to others, which are located on campus.

Only two of the insurance policies applying to the university were purchased on a statewide basis by the State Board of Examiners. The remaining policies were all engaged at the local level by the university. If there is a genuine need for this supplemental coverage at the university, then there may also be a similar need for such coverage at the other five units of the university system, and quite possible, in many other state agencies. With respect to liability coverage, for example, many other state agencies may also need similar coverage for the very same reasons that the university does. Accordingly, we believe there could be savings if the University System or, for that matter, the state were to purchase all general types of insurance on a statewide basis. This would result in uniform coverage from agency to agency, enable the smaller agencies to obtain the same coverage at reduced rates, and give the state greater buying power in the area of insurance.

In the case of the policies purchased by the State Board of Examiners, the university pays the premiums in an indirect manner. A specified amount is appropriated directly to the Board of Examiners each biennium from the university millage account for all the university units. In the case of the remaining university-purchased policies, the premium is paid by the university directly out of operating moneys.

Under present practice, the university does not allocate or prorate all insurance costs to the various campus operations and organizations. As a result, operations such as the auxiliary enterprises which are supposed to be operating on a self-sustaining basis, are not bearing the cost of insurance even though their facilities are covered by insurance being paid for by the state. In most business environments, insurance is a normal cost of doing business, and has to be contended with. This is not the case at the university, however, where over 55 per cent of the insured plant and equipment is involved in auxiliary enterprise operations. This includes buildings and equipment such as the residence halls, swimming pool, fieldhouse, etc.

RECOMMENDATION

We recommend that the university:

1. *Confer with the State Board of Examiners to acquire insurance of a peculiar or supplemental nature for all university units on a consolidated and uniform basis.*
2. *Devise a means of prorating the cost of all insurance to auxiliary and similar enterprise operations.*

Disposition of Fire Insurance Proceeds

During 1969 the university incurred a fire loss at its baseball park in Missoula. A claim was filed with the appropriate insurance company under the statewide fire insurance policy and in October 1969, the State Board of Examiners received a recovery of $25,575. Subsequently, the Board of Examiners deposited the insurance recovery in the state treasury and instructed the state treasurer to issue a treasury check to the university.

During the course of time, portions of the insurance proceeds were allocated by the university to the various campus organizations which suffered a loss in the fire, and a large portion was transferred to the state architect-engineer as a construction advance for rebuilding.

Section 79-410(6), R.C.M. 1947 (Treasury Fund Structure Act), specifies that moneys indemnifying the state for loss or damage of property should be deposited in the state treasury to an account in the Bond Proceeds and Insurance Clearance Fund. The rationale behind this statute is obvious, and is alluded to in Section 79-409, R.C.M. 1947, i.e., to provide a greater measure of control over public moneys and to insure that the financial records of the state accurately reflect governmental costs and revenues. Unless agencies comply with these statutory provisions, the control and disclosure intended by law will not be accomplished. Accordingly, we believe all insurance recoveries should be deposited in an account in the Bond Proceeds and Insurance Fund.

RECOMMENDATION

We recommend that the university and State Board of Examiners deposit all insurance recovery proceeds in the Bond Proceeds and Insurance Clearance Fund of the state treasury.

FEES FOR OPERATION AND DEBT SERVICE

During 1969-70, the university collected in excess of $248,000 for use in meeting the operating and debt service requirements of the university center. This amount was collected as a result of the assessment of a $10 "Student Union" fee on all students. The $10 fee and other student building fees of $20 are levied each quarter on all students, and combined, amount to $30 per quarter, or $90 per academic year. This $90 figure is important

in that it is the statutory ceiling imposed on student building fees by the legislature. Section 75-216(2), R.C.M. 1947, provides that student building fees which are imposed uniformly upon all students shall not be increased without authorization by law and, in the case of the university, specifies that student building fees may not exceed $90 per academic year. The university was at the statutory ceiling of $90 during the 1969-70 academic year.

With the commencement of the 1970-71 academic year, an additional fee was levied upon the students in conjunction with the university center and with the approval of the Board of Regents. This fee, which is now in effect, consists of an addition $5 fee called the "University center operating" fee. It is assessed on all students and is collected at the same time as the $10 student union fee. In fact, the proceeds from both of these fees are deposited in the same university accounts where they become commingled and from which disbursements are made for debt service and operating expenses.

University officials cite Section 75-216(2), R.C.M. 1947, as their authority for assessing the additional fee, which they refer to as a "use" fee. Section 75-216(2), R.C.M. 1947, provides that the statutory limitation of $90 does not apply to " . . . admission or use charges, which are made to individual students or others in proportion to their use or occupancy of particular facilities or services . . . ." The need for this additional revenue is apparently based upon the fact that the revenue from the original $10 fee, as well as the revenues produced by operations of the facility, were barely sufficient to meet debt service and operating expenses in 1969-70. As a result, additional revenue was needed and the $5 use fee was levied to meet this need.

Although it is apparent that additional revenue is necessary to meet financial commitments at the university center, we question the manner in which the revenue is being raised. The legislature placed a strict limitation on student building fees in Section 79-216(2), R.C.M. 1947, and in doing so, alluded to the fact that student building fees are those fees imposed uniformly upon all students as a means of meeting debt service requirements. The statute gives the university the latitude to charge use fees to individual students or other in proportion to their use of the facility. In the case at hand, however, the university center operating fee of $5 is more like a student building fee than a use fee. It is assessed upon all students and its payment is mandatory if the student wants to attend the university. Furthermore, the proceeds from the fee are commingled with the $10 student union building fee, i.e., to meet debt service and reserve requirements. On the other hand, neither of the fees are assessed in proportion or relation to an individual's use of the university center. Therefore, in our view, both the student union fee and the university center operating fee are of the same character. On this basis, the university is assessing an annual student building fee of $105 per academic year, which is $15 in excess of that allowed by law.

Since the statute prescribes a specific limit on student fees and allows the application of a use fee only in proportion to use, we believe a question exists with respect to the university center operating fee. The university should, in our opinion, seek the attorney general's advice as to whether the levying of a mandatory fee uniformly upon all students in the manner undertaken by the university is in conflict with the requirements of law. In the event that the university's action contravenes the law, we believe the university should consider seeking amendatory legislation to raise the statutory ceiling on student building fees to the point necessary to meet the debt service, reserve, and operating requirements of the university center.

RECOMMENDATION

We recommend that the university seek an opinion from the attorney general as to the propriety of levying a use fee uniformly on all students in view of the restrictions of Section 75-216(2), R.C.M. 1947.

EXPENDITURES

During 1969-70, the university financed its operations with moneys provided by many sources, including state appropriations, revenue from enterprise operations, investment income, and numerous other sources of revenue. Because of this it is difficult to analyze and evaluate university expenditures strictly in terms of state appropriated moneys, for in the university's view, state appropriations are merely another source of revenue, although they are the major source of operating resources.

At the university level, amounts available for expenditure are classified into two general categories, namely local moneys and state moneys. For purposes of expenditure, no real difference exists between these categories in that the money and claims are commingled and claims are prepared for all disbursements. The only major difference is that claims drawn on state moneys are processed through the State Department of Administration in Helena while claims on local moneys are processed entirely at the university level. Following, we comment on a number of procedures, techniques and practices relative to expenditures which we believe require further attention.

Reconciliation to State Controller Reports

The university does not reconcile the records to all routine reports prepared by the state controller. We found, for example, that the balance of expenditures shown in the state controller's monthly and annual report

of expenditures by object class were not reconciled to the university records either in total or in part. Consequently, the state controller's record of university expenditures is grossly distorted in terms of what was actually expended by the university. The controller's report showed total expenditures for the university during 1969-70 to be $16.1 million, while the university records indicate that actual expenditures were over $29 million, a disparity of $13 million. Likewise, the individual line items in the various reports and records do not agree, as illustrated by the following examples:

UNIVERSITY OF MONTANA
COMPARISON OF SELECTED EXPENDITURES
BY OBJECT CLASS
1969-70

Function	Balances		
	State Controller	University	Difference
Admin. & Gen. Expense - Supplies & Material	$ 93,041	$102,653	$ 9,612
Physical Plant Oper. & Maint. - Communications	189,616	166,925	(22,691)

University business office officials advised us that they have never attempted to reconcile their records with the state controller's records, insofar as expenditures by object class are concerned. They said that any effort to make such a reconciliation would be a vain and fruitless exercise, primarily because the university spends local moneys which never pass within the state controller's purview. Such a reconciliation would also be hindered by the fact that numerous inter-departmental transfers and adjustments are made each year, none of which are reflected in the state controller's records.

Reconciliations are important from the standpoint that copies of the state controller's reports, and in some instances, accounting records, are used by

other state agencies, the legislature, and others for comparative and analytical purposes, as well as in the budget process. The extent that these records do not represent the actual expenditures made by the university could result in misleading and erroneous use of the data by others. Our recommendations relating to the deposit of all money collected by the university in the state treasury will assist in resolving this problem to a certain degree. Once all moneys are deposited in the treasury their application and expenditure will be reflected in the state controller's records and this, in itself, should reduce the disparity between the state controller's reports and records and those of the university. Nevertheless, reconciliations should be made as a matter of routine to assure the completeness and accuracy of the respective data.

RECOMMENDATION

We recommend that the university establish a routine wherein the university accounting records and reports are reconciled to the state controller's reports and the state controller be apprised of any differences, as is the standard procedure for other state agencies.

Revenues Credited as Refunds to Appropriations and Expenditures

During the course of the year the university collects fees, refunds, and other reimbursements as a result of routine operations. In some instances, these revenues are received from sources outside of the university while, in other instances, they are the product of auxiliary enterprise operations and inter-departmental services.

In handling these revenues from an accounting standpoint, several alternatives are available to the university, as well as other state agencies. For example, revenues can be credited as refunds to agency appropriations, or as

refunds of expenditures in the case of local moneys. They can also be recognized as income in the agency's accounts or in the state treasury. Our analysis of university records disclosed that revenues are very rarely recognized as income to the state treasury. Rather, in most instances, revenues received by the university are treated as refunds to appropriations and expenditures.

We believe this practice is undesirable from several viewpoints. Uncontrolled crediting of revenues to an agency's appropriation and expenditures has the effect of increasing the appropriation and amount available for expenditure. This, in turn, expands the spending capability of the agency in an area outside of legislative and central fiscal control. The various accounts used by the agency will be respectively overstated and understated because revenues are recognized as refunds, resulting in incorrect expenditure and revenue data which is reflected in budget and accounting reports.

The basic principles involved are important from an accounting, budgeting, and proper disclosure standpoint. In the past we have observed similar situations in other state agencies (e.g., reports on land board and State Board of Equalization, June 1970 and July 1969, respectively). As state previously with respect to these agencies, and now the university, we believe more definitive accounting guidance is needed in this area for use by all state agencies.

RECOMMENDATION

We recommend that:

1. *The university compile a listing of the type, source, amount, and present disposition of all revenues received by the university from all sources, including fees, refunds, and reimbursements.*

2. *The university consult with the state controller to determine the proper method of handling each of these types of receipts.*

3. *The state controller establish guidelines for the use of all state agencies, outlining the procedures to be followed in accounting for fees, refunds, reimbursements, and similar items.*

Use of General Fund Appropriation

Section 82-109, R.C.M. 1947, provides that it shall be the duty of the state controller to apply expenditures against cash funds wherever possible before using the general fund appropriations. Commensurate with this statute, the state controller issued Management Memo 70-15 in May 1970. This memo was issued to remind all agencies of the statutory requirements and to establish a formal policy in this area. The state controller stated that in those cases where moneys have been appropriated from both the General Fund and other than the General Fund for the same purpose and program, (which is the case with the university), the appropriation from available non-general fund moneys must be expended before expenditures are made from the general fund appropriation. In this regard, officials of the state controller's office were adamant about this policy and said that the university system had been questioned on this aspect in the past.

During the 1969-71 biennium the university received appropriations for personal services, operation, and capital from three major sources. The appropriations for fiscal year 1969-70 were as follows:

UNIVERSITY OF MONTANA
APPROPRIATIONS FOR PERSONAL SERVICES, OPERATION, & CAPITAL
Fiscal Year 1969-70

General Fund	$ 6,535,000
Earmarked Revenue Fund:	
University Millage Account	1,800,000
Student Fee Account	2,160,000
Total	$10,495,000

Our review disclosed that notwithstanding the state controller's efforts, the university exhausted the general fund appropriation before spending moneys in the non-general fund categories in 1969-70. We were advised that as a matter of practice, general fund moneys are spent first and this was being done to preclude the reversion of unused general fund moneys at year end. Business office officials stated that the spending pattern descends in the following manner:

UNIVERSITY OF MONTANA
APPROPRIATION SPENDING PATTERN
1969-71 Biennium

Resources	Application
General Fund Appropriation	Generally Payroll
Millage Account Appropriation	Operation and Capital
Student Fees	Payroll, Operation, and Capital
Federal Moneys	Same
Other Miscellaneous Moneys	Same

During 1969-70, for example, the university's general fund appropriation was almost completely expended by May 1970. Meanwhile, the student fee appropriation did not have any claims charged against it until December 1969,

and the federal and private revenue account ended up the year with an unencumbered balance of $45,000. Analysis of the claims underlying these balances confirms the disbursement pattern. For example, the payment of premiums for long-term disability insurance which commenced in January 1970, were made from the General Fund during the period of January through April 1970, the Earmarked Revenue Fund in May 1970, and the Federal and Private Revenue Fund in June 1970. However, after June 30, 1970, when the new fiscal year commenced the university again proceeded to process claims against the General Fund.

We believe that many of the problems described above and in other sections of this report could be alleviated to a large extent by the establishment of a general use account for the university within the state treasury, in addition to the other accounts needed for moneys designated for certain purposes, such as a federal and private revenue account. This general use account would be an account in which all moneys available for general university operations would be deposited. This would include all appropriated support moneys, and all other moneys received by the university which are available for general operations. Moneys available from the student fee account and university millage account in the Earmarked Revenue Fund would be transferred to the extent of the respective appropriations to this account by the state controller who would also transfer general fund appropriated moneys to the account as necessary to meet university expenditures. All available moneys would be transferred into the account and <u>all</u> general support university claims and disbursements would be made from it.

Utilization of this account would simplify the accounting procedures at both the university and State Department of Administration levels, and provide for a more effective means of disclosure and control over university

expenditures. Discussion with appropriate university and State Department of Administration officials tended to confirm our views in this regard. Representatives of the state controller's office advised us that they could foresee no practical problems with such a procedure and indicated that the state controller presently has the statutory authority to effect such a change.

RECOMMENDATION

We recommend that the state controller establish an account in the appropriate treasury fund to receive, hold, and disburse all moneys available to the university for general support operations, including state appropriations and moneys from all other sources, not otherwise required to be deposited elsewhere by law.

Deferring Payment of Invoices

During the course of our review of claims we noted numerous instances where invoices were being withheld by certain departments. Evidence in the files and discussion with university personnel disclosed that these invoices were being withheld and not presented for payment because of insufficient local budget balances. The departments had overspent the amount allotted to them through the university's internal budget process and, as a result, they were either advised or decided to withhold the invoices until such time that additional allotments became available. Our tests disclosed that most of the invoices were in excess of 3 months old and that some of them ranged up to 8 months in age from the time they were received until they were paid. Some examples are presented in the following table:

UNIVERSITY OF MONTANA
SELECTED EXAMPLES ILLUSTRATING
THE DEFERMENT OF INVOICE PAYMENT
Fiscal Year 1969-70

Commodity/Service	Amount	Invoice Date	Date Sent To Helena
Association Dues	$150	1/ 1/70	7/ 9/70
Photographic Prints	145	10/20/69	7/ 9/70
Music Workshop	29	3/19/70	7/ 9/70
Electrical Service	818	5/ 6/70	7/ 7/70
Books	17	8/ 4/69	7/ 7/70
Telephone Service	290	3/ 7/70	7/15/70
Film Strips	127	10/ 3/69	7/24/70
Restaurant Expense	172	3/ 5/69	7/25/70
Automotive Parts	94	2/28/70	7/ 9/70

As shown above, and without exception in all cases analyzed, payment of the invoices was deferred until after July 1, 1970, the beginning of the new fiscal year. In addition, all of the invoices were paid at the beginning of July or at least within the month of July.

We believe this point is significant from several viewpoints. First, from a budgetary standpoint, this practice illustrates a lack of planning and budgetary control. Secondly, a question exists as to why the various departments are involved in the receipt of invoices. In our view, this is a poor purchasing practice and is dealt with in that section of our report.

Lastly, we believe the practice described above is undesirable in that costs are not matched to the proper period. As previously mentioned in our comments with respect to the accounting system, the state controller is implementing the procedures necessary to place all state agencies on the modified

accrual basis of accounting. Once this is complete, the problem we describe above will be largely averted. Nevertheless, we believe the university should remedy this practice to the extent possible at the university level so that all invoices and similar commitments are presented to the business office as soon as possible after receipt.

RECOMMENDATION

We recommend that the university identify and determine the underlying reasons why invoices are being withheld from payment and take appropriate action to remedy the cause of this practice.

Central Receiving

The university has no central receiving system and, as a result, invoices are sent directly by the vendors to the department and other university functions. The departmental officials have in the past initialed or signed the invoice and forwarded it on to the business office for payment. Business office officials advised us that they generally accept the presence of initials or signature as evidence that goods or services were received. They said that this system makes it difficult to match invoices against purchase orders and that much effort goes into trying to identify bills with departments, trying to obtain approvals, making photocopies of invoices, and trying to identify freight bills with purchase commitments.

We believe most or all of these problems could be overcome by establishing a central receiving point for all university purchases. This would allow for proper matching of purchases with purchase orders and provide that (1) the good or service being billed for were all received, (2) the good were received in satisfactory condition and, (3) the claim is a proper one for payment.

RECOMMENDATION

We recommend that the university establish a point of central receiving incorporating a system of receiving reports.

SERVICES PERFORMED FOR NON-STATE AGENCIES

On May 19, 1969 the university sought an opinion from the attorney general on the propriety of incorporating the permanent employees of the university Federal Credit Union into the university payroll system. The university advocated the inclusion of the credit union employees so that those employees could share in the benefits enjoyed by regular university employees, such as tax-sheltered annuities, group insurance, and other benefits. In seeking this change, the university pointed out that the amounts paid from the university payroll on behalf of the credit union employees would be fully reimbursed by the Federal Credit Union and that there would be no additional cost to the university in accomplishing this function.

On May 29, 1969, the attorney general responded to the university's request with a letter opinion advising the university that inclusion of the credit union employees in the university payroll system was prohibited by the Montana Constitution. According to the attorney general, Section 1 of Article XIII of the Constitution prohibits state agencies from the loaning of credit to any organization which is not controlled by, or is not a part of, the university. In this regard, the attorney general said that the payment of the salaries of such employees by the university, even though later reimbursed, would amount to a loaning of credit by the state and is therefore prohibited.

The university incorporated the credit union employees into the university payroll system in January 1970. At the time of our audit, credit union employees were being paid through the university payroll system by means of state warrants and were participating in state employee benefits such as tax-sheltered annuities, group insurance, etc., all of which are subsequently reimbursed to the university by the credit union. During

January 1970, for example, the university paid credit union salaries and benefits in the amount of $1,352 on January 30, but was not reimbursed by the credit union until February 11, or about two weeks later. The transactions in this month are typical of other months.

Our review also disclosed that numerous other organizations have a relationship with the university similar to that of the credit union; i.e., chartered by and under the control of someone besides the university, yet their payroll is processed by the university and paid by state warrants. Among these organizations are the fraternities and sororities, alumni association, foundation, student association, and others which collectively, consist of about 433 people in 28 organizations.

University officials advised us that it was their belief that the university is merely providing a "bookkeeping service" for these organizations. In essence, however, the university is providing much more than a bookkeeping service. The university not only maintains the accounting and related records for these organizations, but also pays them from the state payroll revolving fund using state warrants drawn by the state auditor, provides them with access to fringe benefits which they could not otherwise obtain, and lends credit to the organizations through the payroll process.

Because of the close relationship between the university and these various organizations, we requested an opinion from the attorney general to clarify the circumstances under which this close relationship is allowable. The attorney general advised us in a letter opinion on December 1, 1970, that while organizations of this type were not state agencies, they could receive benefits and services from the state provided the state was properly reimbursed. The attorney general opinion did not clarify whether this reimbursement had to be before or after the fact and whether payment by means of state warrants drawn on the state auditor was proper. As a

result, we believe a question of method still exists and that the university should seek further legal advice from the attorney general.

RECOMMENDATION

We recommend that the university seek legal clarification from the attorney general as to:

1. *Whether the university should require reimbursement of payroll costs in advance or after the fact.*
2. *Whether it is proper for non-state personnel to be paid on state warrants drawn on the state treasury.*

PURCHASING

The university, because of its size and diverse nature, does a substantial amount of purchasing of materials and equipment. As we have explained before, the university has moneys available for expenditure from two sources, e.g., state sources (appropriations) and local sources (money generated from various activities of the university which are not deposited in the state treasury) and purchases are made from both sources. During 1969-70, the purchasing function was performed by an employee of the business office, under the controller, known as the "purchasing assistant." Other duties have also been assigned this individual.

Purchasing from "local moneys" is not controlled by the university business office through the purchasing assistant. Discussions with the personnel involved disclosed that due to the substantial volume of purchasing done by the university, most of the purchasing assistant's time is spent in determining that "state" moneys are expended in accordance with state purchasing laws. Department heads have the authority to make purchase commitments of university moneys without the knowledge of the business

office. A federal auditor reviewing research grants noted that recipients of these grants made purchases without the benefit of competitive bidding and that each director in charge of such grants worked independently in procuring necessary equipment.

We noted several instances where equipment was scheduled to be purchased by a department from state appropriated moneys and accordingly a purchase order was issued by the state purchasing agent. Subsequently the university paid for such items from local moneys and the purchase orders were cancelled. We also noted an instance where the physical plant department purchased lumber without approval of the state purchasing agent with the justification given that no materials were on hand, that the lumber was urgently needed, and that there was insufficient time to make such a purchase through the state purchasing agent. For such lumber purchases, a more proper method, in our opinion, would be for the university to estimate the needs and have the state purchasing agent establish prices via an "open-end purchase order" with the local vendors. Under such a system the department would not have to write a purchase order for each purchase of lumber and yet purchases would be controlled, and the most economical prices obtained.

We also noted several areas where funds were overexpended due to the lack of an encumbrance system. An Indian Community Action Program federal grant was overexpended by approximately $31,000 and the Associated Students' Program Council overexpended their budgeted funds by approximately $26,000. One of the major reasons for such overexpenditures occurring is that there is no method for determining the amount of moneys committed at any given time. If purchases made from the above noted "local moneys" were controlled, there would be less chance of such overexpenditures occurring.

We believe many of the described problem areas could be resolved if a system were established wherein all university purchases over a specified amount would have to be made through a purchasing agent. In addition, we believe the university should consider establishing an encumbrance system in the accounting records so that commitments to purchase items could be recorded as soon as practicable, thereby increasing expenditure controls and reducing the possibility of overexpenditures.

In our opinion, all purchasing should be centralized in order to achieve the following objectives:

1. Realization of cost savings by quantity purchasing made possible by scheduling requirements of all departments.
2. Establishment of standard specifications for supplies and equipment.
3. Establishment of inventory controls to eliminate unnecessary duplication of equipment.
4. Encouragement of competition among vendors through negotiation, competitive bidding, and contract buying.

Only with the reorganization of the purchasing function and assignment of purchasing duties to a full-time purchasing agent at the university who could coordinate university purchases and act as liaison with the state purchasing agent, can the above objectives be accomplished.

RECOMMENDATION

We recommend that the university:

1. *Reorganize and centralize all purchasing done by departments of the university within one office.*
2. *Establish a position for a full-time purchasing agent to carry out the university purchasing function and facilitate cooperation with the state purchasing office.*

TRAVEL

Travel Advances

Travel advances to university personnel are made from the university foundation accounts, which are incorporated in the university's accounting system. We were informed that advances are made in such manner because at one time travel advances were not provided for by state law, and the university foundation was considered not regulated by state law in the same manner as state agencies. As pointed out earlier in this report, the university has a contingent revolving cash advance. One of the statutory purposes for these revolving advances is to make travel advances to employees required to travel on state business. The revolving account should be used for this purpose as opposed to borrowing from other sources.

The university's control over travel advances needs to be improved. We observed that the university does not have adequate procedures for following up on advances which are outstanding. The accepted procedure for travel is for an advance to be made to cover the estimated cost of an employee's travel. The employee is then accountable for the advance and must submit a documented travel voucher in support of his expenses. If his expenses are more than the advance, he will be reimbursed for the excess. If the expenses are less than his advance, the employee should be required to make reimbursement on a timely basis to the agency's revolving account.

It is the university's policy to limit advances to 90% of the total estimated travel costs, excluding those expenses paid directly by the state, such as transportation requests. As of June 30, 1970, the university records show outstanding travel advances of $10,185. Originally the account was established at $10,000 and apparently was to operate on an imprest basis. Therefore, at June 30, 1970, the entire $10,000 was outstanding and the account was overdrawn by $185. This is partially due to the fact that many

advances made from this account have been outstanding for a substantial period of time. In our review of the travel advance account, we noted the 54 advances totaling $5,332 had been outstanding over one month, and that 26 of these advances totaling $2,290 had been outstanding over 3 months. We were informed by university personnel that one advance for $126 outstanding since March 1967 was recently written off as a loss.

A simple method to avoid such actual and potential losses is to make the checking of outstanding advances a standard procedure before delivering terminating employees their final salary payment.

Many other advances, outstanding for similar lengthy periods, result from a traveler not submitting a travel claim after his trip; i.e., if the advance was close enough to the actual amount expended, the traveler often doesn't file a travel claim. Even though the university does employ follow-up procedures, which include calling the dean of the department in which the traveler was employed, some advances are still not settled.

RECOMMENDATION

We recommend that the university:

1. *Utilize its contingent revolving account for travel advances instead of borrowing from agency moneys for this purpose.*
2. *Require timely reimbursement of travel advance payments in excess of expenses incurred.*
3. *Make a concentrated effort to collect current long outstanding travel advances.*
4. *Establish a standard procedure of checking outstanding advance records for terminating employees and requiring reimbursement prior to delivering final salary payments.*

Documentation for Travel Claims

During our review of travel claims for the 1969-70 fiscal year, we noted numerous instances where the documentation submitted with the claim was not adequate to determine whether the amount claimed was proper. The following examples are cited to illustrate the manner in which the payments for numerous travel claims are based:

1. Certain claims submitted by the athletic department included per diem and mileage allowances in total and no detail was given as to arrival and departure times and miles traveled on a daily basis.
2. Other claims, where actual costs are being reimbursed, did not show a daily detail of expenses. These claims also did not state the reason why actual expenses rather than per diem were being reimbursed even though the law restricts the payment of actual expenses, as described in the following paragraphs.

Section 59-540, R.C.M. 1947, requires that a daily detail of travel expenses be given on state travel claims. We believe the university should require such daily detail on all claims before making reimbursements.

Section 59-538, R.C.M. 1947, provides for per diem allowances for state employees and sets certain limitations on such allowances ($13.50 per day, in-state; $22.50 per day, out-of-state). That section also prohibits paying actual expenses in excess of the prescribed rates of all but a few state officials. We believe that the university should consult this law before processing claims for actual expenses in excess of the established per diem rates.

Our review of various travel claims also disclosed several amounts being claimed other than travel expenses. The following are examples:

1. Various claims submitted by the athletic department contain amounts for "public relations" entered in total for an entire trip. There was no detail or documentation available for review to substantiate the amounts claimed. We are aware of no provisions in the law for the reimbursement of such amounts on travel claims. We believe the university should devise alternate procedures for the reimbursement of such items if they are appropriate and part of official state business.

2. We noted one instance of a capital item being purchased and charged to travel expense. This was for a vehicle, the cost of which was included with other expenses totaling $3,150, for a university professor working under a research grant in Africa. Documentation for the purchase of the vehicle and other expenses consisted of a letter from the professor requesting the money. No other documentation was available.

RECOMMENDATION

We recommend that the university:

1. *Require daily detail on all travel claims in accordance with Section 59-540, R.C.M. 1947, before making reimbursements.*
2. *Allow actual travel expenses in excess of statutory rates only in those cases allowed by Section 59-538, R.C.M. 1947.*
3. *Restrict the use of travel claim forms to travel costs in submitting requests for payment.*

DISCRETIONARY FUNDS

As a part of our review, we attempted to determine the extent to which the university received and expended moneys and the circumstances and conditions under which this was done. As discussed under the Cash section in the report, we found that there are two general categories of moneys within the university financial structure. The first of these two categories is the appropriated state moneys which are controlled through the appropriation and claim-warrant process. The second general category is all non-appropriated moneys which are referred to as "local" moneys. Almost entirely, local moneys are received and expended without any degree of legislative or central state fiscal control. Their receipt and disposition is basically within the purview of the university itself with a certain degree of control exercised by the Board of Regents.

Within the framework of local moneys, we found groups of locally controlled accounts which are used in a manner which can best be described as "discretionary." That is, the money is available and used without any degree of effective external control or state accountability. In some instances, this money is available as deemed appropriate by the president of the university (President's discretionary accounts) while in other instances it is available to departmental heads and others involved in special projects (Academic development accounts). The primary sources of receipts for these accounts are discussed in the following comments.

Indirect Costs Account

Our review disclosed that almost all of the money available for discretionary use at the university emanated from the indirect costs account. As shown in the following table, $598,088 was available in this account during the year. The account had a balance of $331,000 at June 30, 1970.

Since the moneys in this account are classified as "local" moneys by the university, they are not subject to reversion as are most state appropriated moneys.

The title "indirect costs account" is a misnomer in the sense that the money in the account comes from several sources, although the most significant source is indirect cost reimbursements. The various sources and their relative significance are as follows:

UNIVERSITY OF MONTANA
SOURCE OF MONEYS IN INDIRECT COST ACCOUNT
Fiscal Year 1969-70

Source	Amount
Balance carried forward from 1968-69	$140,212
Indirect Cost Reimbursements	261,780
Investment Income	115,231
Bookkeeping Service Fees	45,605
Transfer of Other Funds	25,019
Other Miscellaneous Sources	10,241
Total	$598,088

As shown by this table, the moneys in the indirect cost account come from several sources including $261,780 from indirect cost reimbursements.

Indirect Cost Reimbursements

Indirect cost reimbursements are those amounts paid to the university for the administration of research and training grants. This comes about as a result of moneys granted to the university or foundation for the purpose of conducting research or training. During 1969-70, over $3.4 million was spent by the university for training and research under grants from federal, state, and private sources. The purpose of these grants ranges from the study of migratory habits of elk in Yellowstone Park to sophisticated

research in the areas of science. Since the utilization and performance on federal grants is periodically reviewed by federal auditors, we did not examine these aspects. Instead, we confined our effort to the use and disposition of indirect cost reimbursements and conferred with the federal auditors on the other aspects.

Indirect cost reimbursements are generally the result of a negotiation between the university and the grantor. As a result of this negotiation, the grantor agrees to reimburse the university for those costs incurred which are largely unmeasurable, such as administrative effort, bookkeeping services, etc. In most cases, the rate of reimbursement is a percentage of personal service direct costs incurred in the research effort.

At the university nearly all research and training grants are channeled through the University of Montana Foundation. Federal officials responsible for the overseeing of the federal research and training projects advised us that, while the foundation was the administering agent, the actual research and training was being carried out by university personnel. Our review substantially confirmed what the federal officers said and disclosed further that, in the case of research and training, the foundation is merely a figure-head. That is, nearly all of the administrative research and training effort is performed by university personnel, using university facilities and equipment. In fact, the complete foundation operation is incorporated into and maintained as a part of the records system of the university. In addition, the director of the foundation receives one-third of his salary from university moneys, with the remainder coming from the indirect cost account. Thus, almost the entire foundation effort in the area of research and training is, in reality, a university effort, with the grant moneys being merely channeled from the grantors to the university through the

foundation. The administrative effort which is responsible for the production of indirect cost reimbursements comes from the university, whose personnel, equipment, and materials are being utilized in the research and training processes. While it is true that the grants are paying for the direct costs incurred by the university, the unmeasurable indirect costs are also being incurred by the university. Accordingly, we believe that any reimbursement for indirect costs should accrue to the university and not the foundation. In fact, we can see no practical reason why all research and training grants are not engaged in directly by the university. In our opinion, this would not be a difficult change and would not result in any additional costs to the university. To the contrary, we believe it would clear up the lines of responsibility in the areas of research and training and would serve to place the university in a position of direct control over such activities in both name and actuality.

RECOMMENDATION

We recommend that the university:

1. *Take whatever action necessary to transfer all present research, training, and similar grants to an administrative function under the direct control and supervision of the university.*
2. *Hereafter execute all agreements providing for research, training, and similar grants in the name of the university.*
3. *Deposit and record all proceeds, including grant moneys and indirect cost reimbursements, received from research, training, and similar grants as revenue to the appropriate accounts in the state treasury.*

Investment Income

As shown in the preceding table, over $115,000 in interest income was received by the university during 1969-70. This interest income was deposited in local banks and recorded in the foundation indirect costs account. As shown in the table, interest income comprises the second largest source of revenue to the indirect cost account.

The interest income of $115,000 resulted from the investment of moneys by the university. The actual investments are made at the direction of the university from moneys in the university bank accounts. Because of the manner in which university moneys are commingled in the local bank accounts from which the investments are made, it is difficult to ascertain which moneys are invested. Since the university accounts for all moneys, including foundation moneys, it is probable that the invested money belonged in part to the foundation and the remainder to the university. This again illustrates, in our opinion, the confusion resulting from the relationship of the university and foundation. Available cash and investments are commingled, controlled, and administered by the university, and the majority of cash invested is the product of university operations such as research and training, excess student fees, refundable deposits, and other items. Accordingly, we question the propriety of transferring all interest income into the indirect costs account which the university account structure classifies as a foundation account.

RECOMMENDATION

We recommend that the university:

1. *Establish a positive means to segregate state moneys from foundation moneys in the accounting and banking structure.*
2. *Deposit and record all interest income received as a result of the investment of state moneys as revenue to the appropriate accounts in the state treasury.*

Bookkeeping Service Fees

Bookkeeping service fees result from revenue received by the university as a result of bookkeeping services performed under various programs such as National Defense Student Loans, Economic Opportunity Grants, and the College Work Study Programs. These fees are nothing more than a payment for services financed by appropriated moneys and as such should be deposited as revenue to the General Fund. At the present time, however, the money received from this source is commingled in local bank accounts with other moneys and recorded as revenue in the indirect cost account of the foundation. We believe this is improper since the payment is for services rendered by the university, not the foundation.

RECOMMENDATION

We recommend that all payments for bookkeeping and similar administrative services be deposited in the state treasury as revenue to the General Fund.

STUDENT LOANS

Our review in the area of student loans was limited in scope, primarily because federal auditors had spent considerable time analyzing and evaluating the program by the time we commenced our review. The results of our efforts and those of the federal auditors are presented below.

Account Balances

A statistical sample of the student loan balances disclosed that 28 percent of the account balances were in error by $15 or more. The accounts were overstated by as much as $138 while other accounts were understated by as much as $126.

The federal auditors advised us that, in terms of their experience with loan programs of this type, the university program was in need of

considerable improvement. They expressed the belief that the loan balances were too far off, and that since their sample was statistical in nature, it would not be unreasonable to expect that 28 percent of all the loan balances were in error. The federal officials attributed the ascribed problems to the absence of an adequate system and the lack of written procedures covering the student loan function. In this regard, they said that it was their belief that all student loan accounts should be reworked and verified.

University officials acknowledged that they had problems in the student loan area and stated that most of these problems date back several years. They advised us that they were presently undertaking an effort to correct these problems and hope to achieve this in the near future.

RECOMMENDATION

We recommend that the university:

1. *Establish written procedures governing and outlining the duties and responsibilities over the control and accounting for student loans.*
2. *Examine and recompute all student loan accounts to verify the accuracy of principal and interest balances.*

Outstanding Loans for Non-Enrolled Students

Tests made by the federal auditors disclosed a number of instances where loans were made to students who subsequently withdrew from school for various reasons. Under these conditions, it is generally required that students begin repayment of the loan after the passage of a specified period of time. The time allowed before repayment commences ranges from one year, in the case of graduates or dropouts, to a longer period in those cases where the students enter military service. Under any

circumstances, the university records should show the status of the student, i.e., whether he is still a student, withdrawn, deferred, or whatever. The university records did not show this information.

Twenty-eight percent of the loans tested by the federal auditors were classified on the university records as being students when, in actuality, the students were no longer enrolled at the university. In some instances, the students had been gone from the university as long as 2 years.

The federal auditors attributed the failure to properly classify students to an absence of an adequate internal control system to pinpoint withdrawals between academic quarters. We believe the continuance of this condition is detrimental to the student loan program in that it does not provide for the identification of non-students on a timely basis to assure timely repayment of loans.

RECOMMENDATION

We recommend that the university devise a procedure whereby the withdrawal of students between academic quarters is promptly identified and annotated in the student loan records so that timely repayment procedures can be initiated.

Follow-Up on Delinquent Loans

At the time of our audit, in excess of $87,000 in student loans was delinquent. Tests of the follow-up procedures taken by the university to collect delinquent federal loans were found to be generally inadequate by federal auditors.

The federal agency participating in the student loan program recommends a number of specific steps to be taken in collecting loans. These steps range from an exit interview with the student prior to the time of departure

from the university to a series of three follow-up letters. In the case of the university, all of the recommended collection procedures have not been taken and as a result, a relatively large number of student loans are delinquent.

University officials presently recognize the need for improvements in the area of student loans. In this regard, they have contracted with a national collection agency to obtain more effective collection services in the case of those borrowers who are difficult to locate. They have also employed, on a part-time basis, a student who is experienced in collection practices and techniques. In addition to these positive steps, we believe the university should establish a more systematic means of assuring that student loans will be collected. In this regard, we believe the university, as a minimum, should comply with the sequence of actions recommended by the U. S. Office of Education.

RECOMMENDATION

We recommend that the university initiate more diligent and systematic procedures for the collection of student loans.

WAIVER OF FEES

During 1969-70 student fees of many and various types were assessed. The majority of these fees is depicted in the following table:

UNIVERSITY OF MONTANA
QUARTERLY STUDENT FEES
Fiscal Year 1969-70

Fee	Amount Per Quarter
Registration Fee	$ 15.00
Incidental Fee	60.00
Building Fee	20.00
Student Union Fee	10.00
Student Activity Fee	15.00
Health Service Fee	13.00
Motor Vehicle Fee (Drivers Only)	3.00
Total Resident Fees	136.00
Non-Resident Fees	222.50
Total Non-Resident Fees	$358.50

These are general fees assessed to full-time students.

We found that there are many circumstances under which the payment of various fees are waived by the university. These circumstances range from those specifically authorized by law to those apparently authorized through the administrative discretion of the Board of Regents. There are at least 14 circumstances or situations under which university fees are waived or reduced. These circumstances and underlying authority are described more fully in the Exhibit "C" series at the back of this report.

Statutory Authority to Waive Fees

As shown in the Exhibit "C" series, the payment of university fees is being waived under at least 14 separate circumstances or situations. In 5 of these 14 circumstances we were able to trace the authority to waive or reduce fees back to statutes. In the remaining 9 instances we were unable to ascertain the statutory authority under which the Board of Regents

acted in authorizing the waiver of fees. Insofar as we could determine, the privilege of waiving fees under these 9 circumstances dates far back in time and may be derived from the general statutory authority of the State Board of Education, as expressed throughout Title 75, R.C.M. 1947. In any event, we were unable to identify any specific statutory authority underlying the waiver of fees in these 9 circumstances while the statutory authority is clear in the remaining circumstances.

Exhibit D shows that over $626,000 in fees were waived by the university during fiscal year 1969-70. Of this amount, $525,877 in fees were waived under circumstances which are not specifically authorized by law. The most significant instances are commented on below.

Waiver of Fees for Summer Session

It has been university practice, in the past, to waive the payment of all non-resident fees during the summer quarter. This practice apparently emanates from a policy established by the Board of Regents for all units of the University System.

During the 1969 summer session at the university, approximately 2,885 students were enrolled. Of this number, 890 students, or about 31 percent of the total students, were from out of state. None of these students paid non-resident fees. Non-resident fees for the Fall, Winter, and Spring quarters are $222.50 per student for each quarter. If the non-resident students during the 1969 summer quarter had paid the $222.50 fee applicable to the other three quarters, additional revenue of $198,000 would have been realized. We realize, of course, that the number of non-resident students attending the summer quarter might decrease if the non-resident fee is assessed. Nevertheless, we could find no statutory authority for the university nor the Board of Regents to waive all non-resident fees during the summer quarter.

Waiver of Fees for Non-Resident Graduate Assistants

In the past the university has also waived non-resident fees and other fees for non-resident graduate assistants. Graduate assistants are students who have an under-graduate degree, are seeking a graduate degree and, at the same time, acting as teaching or research assistants at the university. They are, in effect, both attending the university as a student and working for the university as a faculty member.

During 1969-70, approximately 165 non-resident graduate assistants and research assistants attended the university. The university waived the fees for these students, including non-resident fees and those other fees mandatory for other under-graduate and graduate students. Based upon the fees in effect at that time, we estimate that the waiver of all fees for non-resident graduate assistants resulted in the waiver of potential revenue of approximately $135,850 during 1969-70 ($98,810 in non-resident fees and $37,040 in registration and incidental fees).

As in the preceding sections, we were unable to locate any statutory authority for the waiver of fees for non-resident graduate assistants.

We believe non-resident graduate students acting as graduate assistants should be compensated for whatever services they provide, but, at the same time, they should pay all those fees required by law.

Waiver of Fees for Faculty and Staff

The university waives all non-resident fees for faculty and staff members and their spouses even though these individuals have not met the residency requirements set out in law. Section 75-506(3), R.C.M. 1947, describes a resident student as a student who has been domiciled in Montana for one year or more. The law does not, insofar as we could determine, provide for any exceptions.

We found that as a matter of practice, faculty and staff members of the university, as well as their dependents, are permitted to enroll and take courses as resident students even though they have not resided in Montana for one year. As was the case in the preceding sections, this practice is based upon a policy established by the Board of Regents.

The university's records are not maintained in a manner to readily show the amount of money involved as a result of this practice. However, university reports indicate that at least $4,000 in non-resident fees were waived for faculty and spouses during 1969-70. The amount for dependents is not shown separately but is included in other categories. The practice of waiving statutory non-resident fees provides the employees of the university with an additional benefit not specifically provided by statute. University officials explained that the waiver of non-resident fees for faculty, staff and their spouses and dependents is, to a certain extent, implied in the academic contracts under which the individuals are employed. While this may be the case, we believe specific statutory approval should be obtained.

We believe that the ability to extensively grant fee waivers should be clarified in view of the fact that the legislature specifically provided for the waiver of fees in only certain instances, such as Indians, veterans, and war orphans.

RECOMMENDATION

We recommend that the university:

1. *Ascertain the statutory basis for the waiver or reduction of fees under those circumstances not expressly provided for by existing statutes.*

2. *Determine the circumstances under which it is in the best interests of the university and the state to waive or reduce fees under circumstances not presently allowable by law.*

3. *Seek legislation to provide the statutory authority for the waiver or reduction of fees in those circumstances where such waiver or reduction is in the best interests of the university and the state.*

Waiver of Non-Resident Fees

Section 75-506, R.C.M. 1947, authorizes the Board of Regents to waive, at its discretion, non-resident fees or tuition for a limited number of non-resident students. According to the statute, the number for whom fees may be waived at the university "shall not exceed in number two percent (2%) of the total number of students enrolled at the unit."

In computing the number of non-resident students for whom fees could be waived, we found that the university uses gross enrollment data from the preceding year. The statute provides that non-resident fees may be waived for non-resident students numbering not in excess of 2 percent of the total number of students enrolled. In calculating the number of fee waivers available in 1970-71, the university used the gross enrollment figures from 1969-70. Gross enrollment figures used by the university include students who are attending on a part-time basis as well as students who have dropped out, or otherwise withdrawn. For example, in calculating the number of 1970-71 fee waivers, the university used a gross enrollment figure from 1969-70 of 9,768 students. Yet the enrollment reports submitted to the University System Office by the university for 1969-70 showed

an average enrollment of 7,435 students (6,539 full-time students and 896 part-time students). The difference of 2,333 students becomes significant when the number of fee waivers is calculated. Using the gross enrollment figure of 9,768 students and the statutory percentage of 2 percent, the university determined that non-resident fees could be waived for 195 students. When the actual average enrollment figure of 7,435 students is used, however, only 149 waivers would be available. In terms of dollars, the difference of 46 waivers represents approximately $9,200.

RECOMMENDATION

We recommend that the university calculate the number of non-resident fee waivers available on the basis of the average number of students in attendance during the preceding year.

CONCLUSION

Many of the recommendations contained in this report relate to policies and procedures that have been in existence at the university for many years, and in many instances, at the other Montana university units as well. To a large degree, the university units and other state agencies have been without state control agency fiscal guidance for years in the area of financial administration in relation to state laws and administrative policies. Each agency has been required to make many decisions where standardized statewide policies and procedures were needed. This lack of established policies and procedures has become especially important in recent years with the increase in government provided services and increased cost, particularly in the area of education. Based upon previous recommendations of the Office of the Legislative Auditor, the state controller is now in the process of developing standardized statewide policies

and procedures for the accountability of moneys under the control of state agencies and other administrative matters. We believe the results of this effort will be a significant aid to the university in the implementation of our recommendations.

The comments and recommendations contained in this report have been discussed with the president of the University of Montana and his chief administrative officials. We wish to thank the president and his staff for the cooperation and assistance extended to us during the course of our audit.

Respectfully submitted,

Morris L. Brusett

Morris L. Brusett
Legislative Auditor

December 22, 1970

EXHIBIT A

UNIVERSITY OF MONTANA
AUXILIARY ENTERPRISES
Fiscal Year 1969-70

	Function	7/1/69 Balance	Income	Expenses	Profit Or (Loss)	6/30/70 Balance
1.	Computer Center	$ 3,450	$ 46,883	$ 35,202	$ 11,680	$ 3,19
2.	Biological Station	3,445	2,327	889	1,438	5,13
3.	Family Housing	52,922	413,528	369,189	44,340	102,42
4.	Food Service & Res. Halls	2,985	2,797,914	2,605,789	192,125	151,29
5.	Health Services	58,028	331,438	271,108	60,330	203,89
6.	Prescription Pharmacy	6,258	21,021	17,922	3,098	9,35
7.	University Printing Services	72,685	397,349	354,200	43,149	109,53
8.	Field House	18,806	52,730	50,106	2,624	17,73
9.	Forestry Lubrecht Camp	(64)	3,416	3,419	(3)	(6
10.	Golf Course	10,839	53,730	59,457	(5,727)	6,50
11.	Intercollegiate Athletics	6,853	326,941	328,368	(1,426)	5,42
12.	Student Union Fee Fund	82,243	251,653	349,169	(97,515)	(23,48
13.	University Theater	966	4,762	3,422	1,341	2,30
14.	University Center Operations	11,930	517,470	523,169	(5,700)	15,61
15.	Swimming Pool	6,555	33,032	29,767	3,265	9,82
16.	Student I.D. Fund	23,249	756	14,673	(13,917)	9,33
17.	Vehicle Registration Fee	4,469	31,369	17,342	14,026	18,49
	Total	$365,619	$5,286,319	$5,033,191	$253,128	$646,50

Note: Profit or (Loss) figures do not equal ending balance because of accruals.

EXHIBIT B

UNIVERSITY OF MONTANA
PRIMARY SOURCES OF CASH RECEIPTS ON THE UNIVERSITY CAMPUS
Fiscal Year 1969-70

The following campus departments, schools, and functions receive cash as a part of their operations and periodically make deposits in the university treasury.

1. Admissions
2. Alumni
3. Associated Students' Store
4. Department of Arts & Sciences
5. Extension Service
6. Field House
7. Family Housing
8. Fine Arts
9. Food Service
10. Foundation
11. Bureau of Business & Economic Research
12. Counseling Center
13. Golf Course
14. Health Service
15. Law School
16. Library
17. Placement Center
18. Physical Plant
19. Pharmacy
20. Print Shop
21. Music Department
22. R.O.T.C. - Air
23. R.O.T.C. - Army
24. Residence Halls
25. Society of Biblical Literature
26. Student Loans
27. Computer Center
28. Swim Pool
29. University Center
30. Women's Center
31. Work Study
32. Geology Department
33. Speech Counseling

UNIVERSITY OF MONTANA
REVENUE FROM STATE APPROPRIATIONS
Fiscal Year 1969-70

General Fund:		
University	$ 6,535,000	
Bureau of Business & Economic Research	86,345	$ 6,621,345
Earmarked Revenue Fund:		
University Millage Account	1,800,000	
Student Fee Account (See Note)	2,488,079	4,288,079
Bond Proceeds & Insurance Clearance Fund:		
U of M Library (State Contribution)	2,465,000	
U of M Renovation Projects	550,000	3,015,000
Encumbered Balance of Prior Year Appropriation		266,506
Total Appropriated Funds		$14,190,930

Note: Originally $2,160,000 in student fees were appropriated. This was increased by $328,079 to $2,488,079 by a budget amendment. The budget amendment did not include additional student fees shown on Exhibit A-4.

UNIVERSITY OF MONTANA
REVENUE FROM AUXILIARY ENTERPRISE
Fiscal Year 1969-70

Computer Center	$ 44,127
Biological Station	2,327
Family Housing	413,528
Residence Halls	840,600
Food Service	1,957,314
Health Service	331,438
Prescription Pharmacy	21,021
University Print Shop	397,349
Forestry Lubrecht Camp	3,416
Field House	52,730
Golf Course	52,519
Inter-Collegiate Athletics	335,826
University Theater	4,762
University Center Facilities	282,470
Swimming Pool	33,032
Total Auxiliary Enterprise	$4,772,459

Note: The above figures represent revenues as opposed to net income. In most instances revenues are offset by operating expenses as these enterprises are supposed to be self-sustaining.

UNIVERSITY OF MONTANA
REVENUES FROM FEDERAL SOURCES
Fiscal Year 1969-70

Department of Health, Education & Welfare	$2,696,010
National Science Foundation	698,730
Department of Defense	241,254
Department of Interior	56,229
Income from Federal Land Grants (See Note 1)	52,231
Department of Justice	30,400
Veterans Administration	18,852
Department of Agriculture	1,000
Other from Federal Revenues (See Note 2)	727,051
Total	$4,521,757

Note 1: Indirect federal income from state management of lands formerly belonging to the federal government but given to the state.

Note 2: Includes federal funds from a conglomeration of federal agencies too numerous to list, including some of the agencies shown above.

UNIVERSITY OF MONTANA
REVENUE FROM STUDENT FEES
Fiscal Year 1969-70

Student 1960 Building Fee ($15/quarter)	$ 476,031
Student Activity Fee ($15/quarter)	294,900
Student Union Fee ($10/quarter)	251,653
Building Fee ($5/quarter)	124,227
Student Blue Cross Fee	33,017
Vehicle Registration Fees ($9/year)	31,369
Forestry Fee	22,014
Student Fees & Collections	19,396
Summer Session Activity Fee	19,227
Law Student Activity Fee	2,550
Student I.D. Fee	756
Subtotal	$1,275,140
Appropriated Student Fees (See Earmarked Revenue Fund at Exhibit A-1)	2,488,079
Total Student Fees	$3,763,219

UNIVERSITY OF MONTANA
REVENUE FROM PRIVATE GIFTS & DONATIONS
Fiscal Year 1969-70

Donations for Scholarships		$ 78,772
Donations for Construction		12,727
Donations to U of M Foundation:		
Unrestricted Gifts	$ 17,325	
Restricted	313,513	330,838
[State & Private Research	469,707	
See [State & Private Training	310,595	
Note [State & Private Continuing Educa.	128,742	909,044
Loan Fund from Private Sources		7,648
Donations for Loans		19,947
Total		$1,358,976

Note: Funds in these categories are received from numerous sources, including private and state sources. The voluminous number of donors precludes inclusion in this report.

UNIVERSITY OF MONTANA
REVENUES FROM INVESTMENTS
Fiscal Year 1969-70

Ryman Endowment Investment	$ 319
Dixon Endowment Investment	4,827
Trust & Legacy Funds - Investment	2,166
Interest Income - Bond Reserve Investment	259,508
U of M Foundation:	
Indirect Cost Pool - Investment	115,371
Endowment Funds - Investment	82,914
Loan Funds:	
N.D.E.A. Federal Funds	6,506
Other Loan Funds	3,960
Total	$475,571

UNIVERSITY OF MONTANA
REVENUES FROM OTHER SOURCES
Fiscal Year 1969-70

Sales & Services of Educational Departments	$ 5,936
Fire Loss Reimbursement	21,152
U of M Foundation	50,397
Total	$ 77,485
Associated Students Store (Bookstore)	$990,502
Repayment of Student Loans	$164,345
Revenues Received in Trust (Note 1)	$463,862
Revenues Received for Student Agencies (Note 2)	$914,192

Note 1: Comprised of various fees, deposits, and advances, such as refundable deposits and unearned fees.

Note 2: Consists of moneys received and held by the university for student organizations such as Karate Club, ASUM Program Council, fraternities, sororities, and others.

EXHIBIT C

UNIVERSITY OF MONTANA
NUMBER OF FEE WAIVERS GRANTED
1969-70 Academic Year

Basis of Waiver	Number of Students For Whom Fees Were Waived			
	Fall	Winter	Spring	Average
1. High School Honor Scholarship	129	126	123	126
2. Advanced Honor Scholarship	207	196	191	198
3. Prize Scholarships	0	0	0	0
4. Indian Scholarships*	34	39	39	37
5. Merit Award - Non-Athletic	71	92	106	90
6. Inmates of Certain Institutions*	2	1	1	1
7. War Orphans' Scholarships*	8	7	7	7
8. High School Honor Scholarships: Triplets, Quadruplets, or Quintuplets	0	0	0	0
9. Exemption of Fees for Faculty, Graduate Assistants and/or Fellows:				
Registration	253	274	257	261
Incidental	298	320	302	307
Non-Resident	180	198	197	192
10. Non-Resident Fee*	134	159	169	154
11. Veterans*	16	18	17	17
12. Reduction of Fees for Part-time Students, Incl. Non-Resident	742	1,123	822	896
13. Athletic Grant-in-Aid	129	125	121	125
14. Music Fee	6	6	6	6

Note: This tabulation excludes fees waived during the summer session.

* Waiver specifically provided for by law. See Exhibit Series C-1 through C-5.

UNIVERSITY OF MONTANA

Scholarships on Programs

Resulting in Fee Exemptions or Rate Reductions

University of Montana

Fiscal Year 1969-70

Basis of Waiver	Source or Authority	Description
1. High School Honor Scholarship	State Board of Education	Waiver of all registration and incidental fees - value $75/qtr. Awarded through freshman year only to graduates of all accredited high schools in the state. Number determined by class size: One scholarship to a class of 25 or less; additional scholarships to each additional 25 graduates or major portion thereof. A candidate must be within the highest one-fourth of the graduating class and must have the highest rank among those desiring to attend a unit of the University System.
2. Advanced Honor Scholarship	State Board of Education	Waiver of all registration and incidental fees - value $75/qtr. Awarded to students in attendance on basis of demonstrated scholarship, character, promise and need. Number of awards not to exceed ten per cent of students enrolled in classes above freshman year.

Basis of Waiver	Source or Authority	Description
3. Prize Scholarship	State Board of Education	Waiver of all registration and incidental fees - value $75/qtr. Awarded to winner of annual debate, declamation and essay contests at the University. Scholarship equivalent to the High School Honor Scholarship. Limited to one year.
4. Indian Scholarship	Section 75-506.1 R.C.M. 1947	Waiver of all registration and incidental fees - value $75/qtr. Any person of one-fourth Indian blood or more, a graduate of an accredited high school, who has shown evidence of studious and industrious habits, is entitled to enroll for four years without charge of fees. The number of such scholarships shall not exceed 96 a year for the entire University System. Rules and regulations for selection are designated by the State Board of Education, ex officio Regents of the University of Montana, the State Superintendent of Public Instruction to be the agent of the Board.
5. Merit Award Scholarship	State Board of Education	Waiver of all registration and incidental fees - value $75/qtr. Awarded to students who have demonstrated scholastic ability. Limited number (unspecified) available at discretion of unit administration and the Deans of the various schools within the unit. Awarded to new or former students.

Basis of Waiver	Source or Authority	Description
6. Inmates of Certain State Institutions	Section 10-110 R.C.M. 1947	Waiver of all fees - value varies. Awarded to any inmate of Montana Children's Center, Industrial School, or Girls Vocational School of Montana who, having completed the course of study at the institution, shall be entitled upon recommendation of the Superintendent and local executive board (and showing studious and industrious habit) to free education at State expense for four years. No fee or tuition shall be charged and cost of transportation, board and room, clothing, books and stationary not to exceed the sum of $400 a year shall be at the expense of the State.
7. War Orphan's Scholarship	Section 77-909 R.C.M. 1947	Waiver of all fees - value varies. The State Board of Education, ex officio Regents of the University of Montana, may waive any and all educational fees for children of members of the armed forces of the United States who served on active duty during World War II and/or the Korean Conflict and who, at the time of entry into such service had legal residence in this state and who were killed in action or died as a result of injury, disease, or other disability incurred while in the armed forces. Child (recipient) must enter a unit of University prior to attaining the age of 21. Eligibility is determined by Board of Education upon findings of the United States Veterans Administration, and such findings are binding upon the Board. In the absence of such findings the Board shall determine the facts. Renewable yearly.

Basis of Waiver	Source or Authority	Description
8. High School Honor Scholarships: Triplets, Quadruplets, or Quintuplets	State Board of Education	Waiver of all registration and incidental fees - value $75/qtr. Awarded to any triplets, quadruplets, or quintuplets graduating in any one class from a Montana High School. Conditions the same as those under High School Honor Scholarships.
9. Exemption of Fees for Faculty, Graduate Assistants and/or Fellows	State Board of Education	Waiver of all fees - value varies up to $355 per quarter. Exempts faculty and graduate assistants and fellows on regular appointment and payment of non-resident fees, except where existing Board agreements necessitate collection of non-resident building fees. Also, on April 8, 1957, the Board authorized waiver of incidental fees of faculty, associate faculty and other staff members.
10. Non-Resident Fee	Section 75-306 R.C.M. 1947	Waiver of non-resident fees - value $222.50/qtr. The State Board of Education, ex officio Regents of the University of Montana is authorized to waive, at its discretion, non-resident tuition for selected and approved non-resident students. The number for whom tuition may be waived at any unit of the University shall not exceed in number two per cent of the total number of students enrolled at the unit; provided that no non-resident student may be admitted to the exclusion of any resident student.

Basis of Waiver	Source or Authority	Description
11. Veteran's Waiver	Section 77-901 R.C.M. 1947	Waiver of all registration and incidental fees - value $75/qtr. All honorably discharged persons who served with the United States Armed Forces in any of its wars and were bona fide residents of Montana at the time of their entry into service shall have free fees and tuition in any and all of the units of the University of Montana, including the law and medical departments and for extra studies in any of the units of the University.
12. Reduction of Fees for Part-Time Students	State Board of Education	Value varies. Students registered for less than seven credits will pay the registration fee and one-half the incidental fee. All other general fees vary with the units.
13. Music Fee	State Board of Education	Waiver of $20 fee per quarter assessed to music majors.
14. Athletic Grant-in-Aid	State Board of Education	Assistance is limited to grants-in-aid for board and room, at current institutional rates, fees and a maximum of $75.00 per year for books and/or incidentals.

EXHIBIT D

UNIVERSITY OF MONTANA
VALUE OF FEE WAIVERS AND EXEMPTIONS
Fiscal Year 1969-70

STATUTORY WAIVERS:

A. Registration and Incidental Fees:			
Indian Scholarships	$ 9,049		
Inmates of Custodial Institutions	300		
War Orphans	1,822		
Veterans	6,196	$ 17,367	
B. Non-Resident Fees:			
2% of 1968-69 Gross Enrollment (20,683 students) x $200		82,800	
Total Value of Statutory Waivers			$100,167

NON-STATUTORY WAIVERS:

A. Registration and Incidental Fees:			
High School Honor Scholarship	28,350		
Advanced Honor Scholarship	44,550		
Graduate Assistants	46,306		
Research Assistants & Fellows	10,485		
Athletic Grant-in-Aid	27,375		
Grant-in-Aid	20,175		
Faculty & Wives	4,758		
Institute Waivers (Summer Qtr.)	8,493	190,492	
B. Non-Resident Fees:			
In excess of 2% statutory limitation	100,060		
Summer Session	198,025	298,085	
C. Music Fees		380	
D. Other Fees:			
Building Fee	2,149		
Health Service Fee	4,380		
Student Activity Fee	30,391	36,920	
Total Value of Non-Statutory Fee Waiver			525,877
Total Value of all Fee Waivers			$626,044